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THE BENEFITS OF DECLINING INFLATION

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THE BENEFITS OF DECLINING INFLATION

FRIDAY, APRIL 22, 1983

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Roger W. Jepsen (chairman of the committee) presiding.

Present: Senators Jepsen, Roth, Symms, and Proxmire; and Representatives Scheuer, Holt, and Snowe.

Also present: Bruce R. Bartlett, executive director; James K. Galbraith, deputy director; and William R. Buechner, Ruth Kurtz, and Mark R. Policinski, professional staff members.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN

Senator Jepsen. This morning's CPI shows once again that although inflation is not out, it is on the ropes. While we cannot claim permanent victory over inflation, we should recognize that for most consumers, inflation has been reduced to almost zero.

This dramatic decline, which has been far larger and far faster than the experts believed was possible, has greatly benefited the American people. The prices consumers pay are no longer rising 1 percent per month. Workers' wages are no longer falling steadily behind inflation. Taxpayers are no longer paying billions of dollars in phony taxes caused by inflation. Homes are no longer luxury goods and again can be part of the American dream. Businesses, particularly small businesses, have had their crushing interest costs cut almost in half—not enough, but they have been cut in half. Farmers' production expenses, which were increasing approximately 20 percent per year, have leveled at 2 percent. And that's about an 18-percent reduction.

However, despite these benefits, recent opinion polls showed that Americans were not aware of the decline in inflation. There are many reasons why the public may not know about the inflation decline, but two reasons stand out.

First of all, falling inflation doesn't put money in your pocket; it just takes it out more slowly. Although we know that inflation is down from 12.2 percent to 1 or 2 percent, the consumer only gradually notices that his money is buying more. I called this hearing to get your best estimates of the effect of falling inflation on taxpayers, consumers, workers, and business. This will do much to inform the public about the present state of the economy.

But the second reason that people may not be aware of the benefits of falling inflation is that we have had rising unemployment at the same time. The bad news has crowded out the good, and to some degree, maybe it should have.

The problem with falling inflation accompanying rising unemployment is that some people make the crucial mistake of thinking that one causes the other. By this perverse reasoning, rising inflation is good for the economy because it will mean falling unemployment.

Well, this chart here at my right compares inflation with unemployment over the past two decades. As inflation has exploded during the past 20 years, unemployment has become a great deal worse. The chart, which relates a year's inflation rate with the following year's unemployment rate, gives evidence as to the cause of our current high unemployment.

The current high unemployment has come from the high inflation of recent years, not from the current low inflation. Our falling inflation of the last 2 years will mean less unemployment this year and next. There is good reason to believe that the recent 0.6-percent drop in the unemployment rate is just the first step in a long, steady decline in unemployment.

To get a full explanation of why low inflation means less unemployment is the other reason I called this hearing today.

Mr. Feldstein, we welcome you here today with all the economic indicators pointing in the right direction, including unemployment. Even though unemployment is much too high, the present state of the economy, particularly the low inflation outlook, means millions of new workers will be joining the thousands already called back to their jobs in making America start to work again.

Mr. Feldstein, it's always a pleasure to welcome you to this committee. We've never had a more cooperative or competent witness than yourself. Thank you for coming. I now recognize Senator Roth for the purpose of making an opening statement.

Senator ROTH. Mr. Chairman, I have no opening statement. But I would like to say that, in my judgment, it's ironical, indeed, that at the very time the economy is beginning to turn around, when we believe that we have inflation under control, that unemployment is beginning to come down from the far too high levels, as you had pointed out, when all the seeds of recovery are beginning to sprout, that this Congress, the Senate, has the arrogance to try to reverse the basic policies that have made this possible.

I find it unbelievable that the Senate Budget Committee, in an incredibly arrogant action, has sought to raise taxes on the working people of this country.

Mr. Chairman, I think it critically important that if this recovery is going to continue, that we continue along the path that has been set out by the President, and up to date, pretty much with the cooperation of the Congress. But it's incomprehensible to me that at this stage, when the economy is just beginning to move, that the people of the Senate and the House, the big spenders, try to reexert their influence and control by raising both spending and taxes.

I just say that there are a lot of us in the Senate that will work hard with the President to insure that the third year of the tax cut and indexing are kept in place.

Thank you, Mr. Chairman.

Senator JEPSEN. Congresswoman Holt.

Representative **Holt**. I have no opening statement, Mr. Chairman. I welcome our witness today. I, too, am concerned about the actions of both Budget Committees, the House and the Senate. I think it's very, very dangerous for us to even consider going back to the old ways of doing things. I'll be interested in hearing our witness' statement this morning.

Thank you.

Senator **Jepsen**. Well, Mr. Feldstein, with that comment, so ably given by my distinguished colleague, Senator Roth, you begin to wonder whether we can stand any type of success at all or if we're going to self-destruct again. And the old adage of don't fix it if it isn't broken certainly applies.

With that, and looking forward to hearing your comments this morning, you may proceed.

Any prepared statement you have will be entered in the record. So you may proceed any way you so desire.

STATEMENT OF HON. MARTIN S. FELDSTEIN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. **Feldstein**. Thank you very much, Mr. Chairman. I'm certainly very pleased to be here this morning before this distinguished committee.

As you requested, I will focus my prepared remarks on the likely impact of the recent decline in the rate of inflation. As you know, a few hours ago, the Bureau of Labor Statistics released the Consumer Price Index for March. The news, indeed, continues to be very good. The overall Consumer Price Index rose only one-tenth of 1 percent. On an annual basis, that represents an increase of just 1.6 percent. So the inflation rate, as measured by the Consumer Price Index, is up only 1.6 percent. And, indeed, comparing this March with the level of a year ago, the price level is up only 3.6 percent, a remarkable decline from earlier years.

In the month of March, consumer prices stood virtually unchanged from their level of 6 months earlier and actually lower than they were in October. This recent experience of relative price stability is confirmed also at the producer level, as your chart indicates. The March producer price index showed a 0.1-percent decline over February's level and, again, was virtually unchanged from the level of 6 months earlier.

Recent wage settlements have shown a moderation that suggests that the economy's underlying rate of inflation has declined as well.

We can take considerable satisfaction from these very positive figures. However, that's not to say that inflation is permanently under control. The maintenance of relative price stability has to be an ongoing task. It is important to avoid policies that might put inappropriate upward pressure on demand and prices.

The relative price stability that we are now experiencing is remarkable in view of the extremely high rate of inflation we experienced just a few years ago. Three years ago last month, President Carter imposed emergency credit controls on the economy. At that time, consumer prices had risen at an annual rate of over 17 percent during the preceding 3 months, and at nearly 15 percent over the preceding year. Producer prices had risen at an annual rate of nearly 17 percent over the preceding 3 months and nearly 14 percent over the year. The experience of ever accelerating inflation at that time had engendered a widespread fear that inflation might continue to rise sharply in the years ahead.

The transition from double-digit inflation and expectations of ever-accelerating price increases to our current experience of relative price stability was dramatic. The transition, though, was also painful. Some temporary decline in real economic activity was probably unavoidable in the process of reversing the upward trend of inflation. It takes time for inflationary expectations, together with direct pressure exerted by excess supplies, to cause prices and wages to adjust to new market clearing levels. The reduced economic activity since 1980 has, in large part, been the price that the United States has paid for failing to control inflation in the late 1970's.

However painful was that temporary reduction in economic activity, the achievement of a permanently lower rate of inflation is of benefit to us all. Taxpayers, people on fixed incomes, investors, and workers are all beneficiaries of the lower rate of inflation we now enjoy. Furthermore, a balanced and sustained recovery will be more likely if inflation is maintained at a permanently lower level.

Let me comment on the relation between inflation and taxes. As you all know, all taxpayers see their income tax liabilities rise—both in nominal terms and real terms—during periods of inflation. Recognition of this "bracket creep" caused the Congress, I think very wisely, to index the income tax system beginning in 1985. However, the amount of inflation we have between now and then determines the level of taxation we will have when indexing begins. The dramatic reduction in inflation that we have already experienced has sharply and permanently lowered the amount of taxes paid by all taxpayers.

That's shown in the first chart of my prepared statement, which you have, and which appears over there [indicating]. That chart indicates that if inflation had continued at the 1980 rate of 12.4 percent, a family which maintained its before-tax real income at $20,000 would have seen its tax liability rise from $2,265 in 1980 to $3,788 in 1984. Due to the lower inflation we have experienced to date, and our expectation of continued lower inflation, that family will pay only $2,494 in 1984.

In short, the family would have paid 52 percent more taxes in 1984 if inflation had continued at its higher 1980 rate than under the rate we now expect. Some of this higher tax liability, of course, reflects a purely inflationary increase. However, even after adjusting for the higher level of prices, that family would pay 19 percent more Federal income tax than if inflation had continued at its higher rate. This higher real tax liability would have been permanent; after indexing takes effect in 1985, no additional bracket creep would occur. But the family would never have made up for the 19-percent bracket creep during the period from 1980 to 1984 that has been avoided because of the lower rate of inflation.

The chart also shows in the bottom part what happens to a family with $50,000 of income. In this case, the family would have seen its tax liability rise from $10,613 in 1980, shown in the bottom corner over there [indicating], to $17,534 by 1984, if that old 12.4 percent rate of inflation had continued. Instead, we project that its tax liability will be $11,884, shown in that much lower line over there in 1984. Again some of that 48 percent additional nominal increase is due to a higher price level.

Senator JEPSEN. Excuse me a minute, Mr. Feldstein. Your figures and charts here show that the lower income taxpayers benefit more from lower inflation than upper income taxpayers.

Mr. FELDSTEIN. Absolutely.

Senator JEPSEN. Why is that so?

Mr. FELDSTEIN. OK. Well, let me comment on the chart.

What you see here, just to repeat some of the numbers I was saying, is that this family, the family which had $20,000 of income in 1980, then paid a tax of $2,265. They will pay a tax of $2,494 in 1984. Because we don't have an indexed tax system at the present time, if we have a 12.4-percent rate of inflation—the family's taxes would increase to $3,788.

Part of that is because the price level would be higher if we had had that high rate of inflation. But even restating it in inflation dollars adjusted, the increase would be to $2,973 in 1984 or a 19-percent tax increase.

With a $50,000 family, there's less bracket creep. They're already up into the high part of the tax schedule where the brackets are broader and therefore proportionately less bracket creep. Therefore, while they, too, would pay more taxes, they'd only pay 16 percent more in real, inflation adjusted terms. If we were to look at another chart of a much richer family that was already at the maximum rate, their taxes would increase barely at all as a result of bracket creep.

I think that reinforces the point that Senator Roth was making about the tremendous importance of keeping tax indexing in the future. And as your question brings out, it shows that that is of greater benefit to the middle and lower income taxpayer than it is to the high income taxpayer.

A similar story could be told for taxpayers at any income level. However, the percentage increase in taxes due to higher inflation is, as you pointed out, higher for people at relatively low incomes than for people at relatively high incomes. Had inflation persisted at its 1980 rate through 1984, a family with a real income of $10,000 would have seen a 40-percent increase in its inflation-adjusted tax liability. So that is a 16-percent increase for that $50,000 family, 19 percent increase for the $20,000 family, and a 40-percent increase in real tax liabilities for a $10,000 family. On the other hand, a family with a constant real income of $200,000 would have seen a real increase in its tax liability of a little less than 5 percent due to bracket creep.

Regardless of the income level, any family which is able to keep pace with inflation before taxes finds itself worse off after taxes due to the effects of bracket creep. The higher the rate of inflation, the greater is that bracket creep.

Bracket creep also exacts an extra cost which is often ignored, in wasted resources and distorted incentives because bracket creep raises marginal tax rates. This was particularly pronounced during the 1970's. A family which earned $20,000 in 1980 and had just managed to keep pace with inflation over the decade, saw its marginal tax rate rise from 19 percent in 1971 to 24 percent in 1980. A similar family, making $50,000 in 1971, saw its marginal tax rate rise from 28 percent to 43 percent as a result of bracket creep.

So it's not just that people are paying more taxes, but that they're being pushed into higher marginal tax brackets with all of the extra distortions that brings about. And for a family with constant real income to be moved in a decade from a 28-percent bracket to a 43-percent bracket indicates just how important tax indexing and the reduction of inflation has been.

Congress, I believe, was therefore very wise to include a provision for indexing of the tax brackets in the 1981 tax bill. After 1985, all taxpayers can expect their taxes to rise only in line with their incomes. Furthermore, marginal tax rates will not automatically increase with the rate of inflation.

Let me leave taxes now and talk about the effect of inflation on the purchasing power of the typical family. The effect of inflation on families living on fixed incomes is well known. If inflation had continued at its 1980 rate through 1984, prices would be over 20 percent higher than what we now expect them to be. With each dollar of income buying 20 percent less than it otherwise would, a family on a fixed income of $15,000 would have found itself over $3,200 worse off in terms of purchasing power.

Fortunately, of course, relatively few people find themselves living on a strictly fixed income. The indexing of Federal transfer programs to the rate of inflation has fully protected those groups who depend on such funds. Of more direct concern to groups like the elderly is the effect of inflation on their income from pensions, dividends, and interest.

Let me illustrate by an example the point that I would like to make. Consider an elderly couple in the 30-percent tax bracket that depends on the interest from their savings for their retirement income. Today, they might expect to receive a return of 8 percent from money market funds or other investments. After inflation of about 4 percent, this leaves a real return of 4 percent. But on an after-tax basis, the 8-percent return has a net yield to them—remember, they're in the 30-percent bracket—of 5.6 percent and therefore, a real after-tax yield of 1.6 percent.

If the inflation rate, instead of being 4 percent, were, instead, 10 percent, and the couple was fortunate enough to receive the same 4-percent real return, their pretax interest rate would be 14 percent. After tax, since they're in a 30-percent bracket, they would receive 9.8 percent or less than the rate of inflation. Thus, a rise in the inflation rate from 4 to 10 percent would entirely eliminate the after-tax real return on their savings.

The effect of changes in inflation on the real wages of workers is a rather complex subject, because, as I noted earlier, it takes time for inflationary expectations to adjust. The evidence from the past 15 years suggests that the real wages of workers tend to fall during periods of increasing inflation and to rise during periods of decreasing inflation. Real average hourly earnings in the nonfarm sector peaked in the first quarter of 1978, as you can see over there in that second chart [indicating], and actually fell through the third quarter of 1981. The total decline in real average hourly wages was over 8½ percent. On the other hand, during the past year, during 1982, real wages rose over 2 percent.

That second chart that has just been put up shows the remarkable turnaround in the behavior of real wages that has occurred in the past 2 years. In January 1982, real wages were higher than they had been a year before. But that was the first time that that had happened in over 3 years. The recovery in real wages coincided with the rapid decline in the rate of inflation we have recently experienced. Furthermore, the deterioration in real wages was greater during the high inflation years of 1979 and 1980.

As you can see, when inflation started increasing back there in the mid-1970's, the real average hourly earnings increase essentially evaporated, and by the end of 1979 real wages were falling at an annual rate of about 5 percent. A similar pattern, as the chart shows, occurred earlier in the 1970's. Real wages peaked at the end of 1972, just before inflation started to accelerate. Then they fell over 5 percent before bottoming out at the beginning of 1975. Real wages then increased through the disinflationary years of 1975 and 1976 and continued to increase until the beginning of 1978 when the inflation rate began to accelerate.

From the point of view of the worker, both the before-tax level of real wages and the level of taxation determine the standard of living. Accelerating inflation during the past decade involved a combination of declining real wages and an increasing real tax burden. The net result was a decrease in real take-home pay. On the other hand, the decreasing inflation of the past 2 years has resulted in both higher real wages and a lower real tax burden. The net effect of lower inflation has been a welcome increase in real take-home pay.

There's one further effect of a decline in the rate of inflation that I'd like to bring to this committee's attention, or more accurately, to emphasize for you. The combination of our tax laws and the high rate of inflation during the 1970's depressed the incentive to invest in new plant and equipment in the United States. This, in turn, lowered our rate of productivity growth and reduced the ability of our industries to compete in world markets.

During the 1970's, gross fixed investment in the United States averaged about 18.4 percent of our GNP. About two-thirds of this investment was needed just to replace the capital that was wearing out or becoming obsolete. As a result, we spent only 6.6 percent of GNP on net fixed investment. Output per employee hour in manufacturing increased at an annual rate of just 2.6 percent.

During the same period, the British devoted slightly more of GNP to net fixed investment and enjoyed a slightly higher rate of real productivity growth. But the French and German investment rates were about twice ours and their growth rates were also about twice as high as ours. And as we all know, Japan has had the highest rates of both investment and growth. The Japanese devoted 19.5 percent of GNP to net fixed investment, almost three times the U.S. share, and enjoyed a rate of productivity increase that was also nearly three times as fast—more than 7 percent a year.

One important reason why our saving rate was so low was the low after-tax real rate of return that savers might expect. I've already illustrated the effect of inflation on the real after-tax return. In fact, during most of the 1970's, the combination of inflation and taxes produced negative expected real after-tax returns for most savers. Business investment as well as saving was penalized by the effects of inflation and taxation. Existing tax accounting methods for depreciation and inventories caused the effective tax rate on the income from corporate capital to rise sharply during the 1970's.

In the mid-1960's, nonfinancial corporations, their shareholders and creditors, paid taxes to the Federal Government and to State and local governments equal to 55 percent of their real capital income, including both equity and debt. But by the second half of the 1970's, that tax share had jumped from 55 percent to 68 percent. The tax bite increased from 55 percent to 68 percent, the share left over for the providers of capital fell from 45 percent to 32 percent, a decline of nearly one-third. The real after-tax rate of return for those who provide the debt and equity capital was only 3.1 percent by the late 1970's, just not enough to provide an adequate incentive for saving and risktaking.

I want to emphasize that this substantial increase in the effective tax rate occurred despite occasional reductions in the statutory corporate tax rate and the liberalization of statutory depreciation rules. The effective tax rates on capital income rose because the increasing rate of inflation caused a rise in the value of artificial tax accounting profits relative to real profits. The primary source of this was the reduced real value of depreciation of plant and equipment.

Although the Economic Recovery Tax Act increased the incentives for business plant and equipment investment, the effective tax rate on these investments still depends on the rate of inflation. That's the main point I want to emphasize.

For example, the combined capital cost recovery from the investment tax credit and from the ACRS depreciation schedule is 45.2 cents on the dollar of investment if the inflation rate is 4 percent, but it's only 41.8 cents on the dollar at a 10-percent inflation.

Under the tax rules in effect at the end of the 1970's, the combined cost recovery was only 39 cents at a 10-percent inflation rate, and actually, of course, was lower in the late 1970's because inflation was higher than that. Thus, reducing the rate of inflation has had about as large a favorable effect on the value of depreciation allowances and therefore, on the incentive to invest, as did the tax law changes in ACRS that were made in 1981 and 1982.

It's particularly important to take a long view when considering the effects of inflation and taxation on the incentives for business investment. The current poor performance of business investment is due to the recession and to the high real interest rates that reflect our budget deficits. We should not be misled by this experience to underestimate the importance of low inflation and of reasonable taxation of business investment for sustained economic growth.

The goal of the administration's economic policy is a balanced and sustained economic recovery with a declining rate of inflation. In contrast, the two long lasting expansions of the post-war period were both accompanied by substantial increases in inflation. When the 1961 recovery began, inflation was under 1 percent. By the time the expansion reached its peak in 1969, the inflation rate had increased to more than 6 percent. The expansion in the second half of the 1970's saw inflation rise from less than 5 percent in 1976 to more than 13 percent in 1979.

A balanced recovery that permits sustained expansion without increasing inflation will clearly not happen automatically. It requires sound monetary policy and budgetary changes that reduce the rate of growth of Government spending and the corresponding size of the deficit. The path to relative price stability has been a painful one, but we are all beneficiaries of having made that choice to proceed. We must be certain now not to return to the high inflation course of the 1970's. Thank you, Mr. Chairman.

[The prepared statement of Mr. Feldstein, together with the Consumer Price Index Press release referred to, follows:]

PREPARED STATEMENT OF MARTIN FELDSTEIN *

Gains from Disinflation

I am certainly very pleased to appear before this distinguished Committee this morning. I have great respect for the work this Committee has done over the years to develop an understanding of our nation's economic problems and to formulate new approaches to these problems.

As you requested, I will focus my prepared remarks on the likely impact of the recent decline in the rate of inflation. As you know, this morning the Bureau of Labor Statistics released the Consumer Price Index figure for March. (Although the March figure is not known as of the time of writing, figures for earlier months have been gratifying.) At the end of February, consumer prices stood virtually unchanged from their level of six months earlier.

This recent experience of relative price stabilty is confirmed at the producer level. The March producer price index showed a 0.1 percent decline over February's level, and again was virtually unchanged from the level of six months ago. Recent wage settlements have shown a moderation that suggests that the economy's underlying rate of inflation has declined as well.

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*Chairman, Council of Economic Advisers. Testimony before the Joint Economic Committee. April 22, 1983.

We can take considerable satisfaction from these very positive figures. However, this is not to say that inflation is permanently under control. The maintainance of relative price stability is an ongoing task. It is important to avoid policies that might put inappropriate upward pressure on demand and prices.

The relative price stability we are now experiencing is remarkable in view of the extremely high rate of inflation we experienced just a few years ago. Three years ago last month, President Carter imposed Emergency Credit Controls on the economy. At that time, consumer prices had risen at an annual rate of over 17 percent during the preceding three months, and at nearly 15 percent over the preceding year. Producer prices had risen at an annual rate of nearly 17 percent over the preceding three months, and nearly 14 percent over the year. The experience of ever accelerating inflation had engendered a widespread fear that inflation might continue to rise sharply in the years ahead.

The transition from double digit inflation and expectations of ever accelerating price increases to our current experience of relative price stability was dramatic. The transition was also painful. Some temporary decline in real economic activity was probably unavoidable in the process of reversing the upward trend of inflation. It takes time for inflationary expectations, together with the direct pressures exerted by excess supplies, to cause prices and wages to adjust to new market clearing levels. The reduced economic activity since 1980 has in large part been the price that the United States has paid for failing to control inflation in the late 1970s.

However painful was the temporary reduction in economic activity, the achievement of a permanently lower rate of inflation is of benefit to us all. Taxpayers, people on fixed incomes, investors, and workers are all beneficiaries of the lower rate of inflation we now enjoy. Furthermore, a balanced and sustained recovery will be more likely if inflation is maintained at a permanently lower level.

Inflation and Taxes

As this Committee knows, all taxpayers see their income tax liabilities rise -- both in nominal terms and real terms -- during periods of inflation. Recognition of this "bracket creep" caused the Congress wisely to index the income tax system beginning in 1985. However, the amount of inflation we have between now and then determines the level of taxation we will have when indexing begins. The dramatic reduction in inflation we have experienced has sharply and permanently lowered the amount of taxes paid by all taxpayers.

As Chart 1 indicates, if inflation had continued at its 1980 rate of 12.4 percent, a family which maintained its before tax real income at $20,000 would have seen its tax liability rise from $2265 in 1980 to $3788 in 1984. Due to the lower inflation we have experienced to date and our expectation of continued lower inflation, that family will instead pay $2494 in 1984. (I might note that both figures reflect the 23 percent across the board tax cut passed for these four years.) In short, the family would have paid 52 percent more taxes in 1984 if inflation had continued at its higher 1980 rate than under the rate we now expect. Some of this higher tax liability reflects a purely inflationary increase. However, even after adjusting for inflation, this family would pay 19 percent more federal income tax if inflation had continued at its high rate. This higher real tax liability would have been permanent; after indexing took effect in 1985, no additional bracket creep would occur, but the family would never make up for the 19 percent bracket creep during 1980-1984.

The chart also shows the bracket creep for a family with constant real income of $50,000. In this case, the family would have seen its tax liability rise from $10,613 in 1980 to $17,534 by 1984 given the 1980 inflation rate. Instead, we project that its tax liability will be $11,884 in 1984. Again, some of the 48 percent higher tax liability is due to a higher price level. However, this family would have seen a permanent increase in its real tax liability of 16 percent due to bracket creep.

A similar story can be told for taxpayers at any income level. However, the percent increase in taxes due to higher inflation is higher for people at relatively low incomes than for people at relatively high income levels. Had inflation persisted at its 1980 rate through 1984, a family with a real income of $10,000 would have seen a 40 percent increase in its inflation adjusted tax liability. On the other hand a family with constant real income of $200,000 would have seen a real increase in its tax liability of a little less than 5 percent due to bracket creep.

Regardless of the income level, any family which is able to keep pace with inflation before taxes, finds itself worse off after taxes due to the effects of bracket creep. The higher the rate of inflation, the greater is the bracket creep.

Bracket creep also exacts an extra cost in wasted resources and distorted incentives because bracket creep raises marginal tax rates. This was particularly pronounced during the 1970s. A family which earned $20,000 in 1980 and had just managed to keep pace with inflation over the decade saw its marginal tax rate rise from 19 percent in 1971 to 24 percent in 1980. A similar family making $50,000 saw its marginal tax rate rise from 28 percent to 43 percent in the same period. Because families make decisions based on the marginal incentives they face, the effect of bracket creep on marginal tax rates may be of as much concern as the added burden of the tax itself.

Congress was wise to include a provision for indexing of the tax brackets in the 1981 tax bill. After 1985 all taxpayers can expect their taxes to rise in line with their incomes. Furthermore, marginal tax rates will not automatically increase with the rate of inflation.

Inflation and Purchasing Power

The effect of inflation on families living on fixed incomes is well known. If inflation had continued at its 1980 rate through 1984, prices would be over 27 percent higher than what we now expect them to be. With each dollar of income buying 27 percent less than it otherwise would, a family on a fixed income of $15,000 would have found itself over $3200 worse off in terms of purchasing power if the 1980 inflation rate had persisted for 4 years.

Fortunately, relatively few people find themselves living on a strictly fixed income. The indexing of federal transfer programs to the rate of inflation has fully protected those who depend on these funds. Of more direct concern to groups like the elderly is the effect of inflation on their income from pensions, dividends, and interest.

An example will illustrate this point. Consider an elderly couple in the 30 percent tax bracket that depends on the interest on their saving for retirement income. Today they might expect to receive a return of 8 percent on a money market fund or other investment. After inflation of about 4 percent, this leaves a real return of 4 percent. On an after-tax basis, the 8 percent return has a net yield of 5.6 percent and a real after-tax yield of 1.6 percent. If the inflation rate were instead 10 percent and the couple was fortunate enough to receive the same 4 percent real return, their pre-tax interest rate would be 14 percent. After tax they would receive 9.8 percent or less than the rate of inflation. Thus, a rise in inflation from 4 percent to 10 percent would entirely eliminate the after-tax real return on their saving.

Inflation and Real Wages

The effect of changes in inflation on the real wages of workers is complex, because as I noted earlier, it takes time for inflationary expectations to adjust. The evidence from the past 15 years suggests that the real wages of workers tend to fall during periods of increasing inflation and to rise during periods of decreasing inflation. Real average hourly earnings in the non-farm business sector peaked in the first quarter of 1978 and actually fell through the third quarter of 1981. The total decline in real wages was over 8.5 percent. On the other hand, during 1982, real wages rose over 2 percent.

Chart 2 shows the remarkable turnaround in the rise of real wages that has occurred in the past 2 years. In January 1982, real wages were higher than they had been a year before for the first time in over 3 years. The recovery in real wages coincided with the rapid decline in the rate of inflation we have recently experienced. Furthermore, the deterioration in real wages was greatest during the high inflation years of 1979 and 1980.

A similar pattern occurred earlier in the 1970s. Real wages peaked at the end of 1972, just before inflation started to accelerate. They fell over 5 percent before bottoming out at the beginning of 1975. Real wages then increased through the disinflationary years of 1975 and 1976 and continued to increase up to the beginning of 1978.

From the point of view of the worker, both the before-tax level of real wages and the level of taxation determine the standard of living. Accelerating inflation during the past decade involved a combination of declining real wages and an increasing real tax burden. The net result was a decrease in real take home pay. On the other hand, the decreasing inflation of the past 2 years has resulted in both higher real wages and a lower real tax burden. The net effect of lower inflation has been a welcome increase in real take-home pay.

Inflation and Capital Formation

There is one further effect of a decline in the rate of inflation which I would like to bring to this Committee's attention. The combination of our tax laws and the high rate of inflation during the 1970s depressed the incentive to invest in new plant and equipment in the United States. This in turn lowered our rate of productivity growth and reduced the ability of our industries to compete in world markets.

During the 1970s, gross fixed investment in the United States averaged 18.4 percent of our GNP. About two-thirds of this investment was needed just to replace the capital that was wearing out or becoming obsolete. As a result, we spent only 6.6 percent of GNP on net fixed investment. Output per employee hour in manufacturing increased at an annual rate of just 2.6 percent.

During the same period, the British devoted slightly more of GNP to net fixed investment -- 8.1 percent -- and enjoyed a slightly higher rate of real productivity growth -- 2.9 percent. But the French and German investment rates were about twice ours (11.8 percent of GNP in Germany and 12.2 percent in France) and their growth rates were also about twice as high as ours -- 4.8 percent in France and 4.9 percent in Germany. As we all know, Japan had the highest rates of both investment and growth; the Japanese devoted 19.5 percent of GNP to net fixed investment -- almost three times the U.S. share -- and enjoyed a rate of productivity increase that was also nearly three times as fast -- 7.4 percent a year instead of 2.6 percent.

The low rate of investment in the United States corresponded to a low rate of saving by our households, firms, and governments. One important reason why our saving rate was so low, was the low after-tax real rate of return that savers might expect. I have already illustrated the effect of inflation on the real after-tax return someone might expect under different inflation rates. In fact, during most of the 1970s, the combination of inflation and taxes produced negative expected real after-tax returns for most savers.

Business investment as well as saving was penalized by the effects of inflation and taxation. Existing tax accounting methods for depreciation and inventories caused the effective tax rate on the income from corporate capital to rise sharply during the 1970s. In the mid-1960s, nonfinancial corporations, their shareholders and creditors paid taxes to the federal, state, and local governments equal to 55 percent of their real capital income, including both equity and debt. By the second half of the 1970s, the tax share had jumped to 68 percent, back to where it had been in the early 1950s before accelerated depreciation and the investment tax credit. With the tax bite increased from 55 percent to 68 percent, the share left over for providers of capital fell from 45 percent to 32 percent, a decline of nearly one-third. The real after-tax rate of return for those who provide the debt and equity capital was only 3.1 percent by the late 1970s, just not enough to provide an adequate incentive for saving and risk taking.

I want to emphasize that this substantial increase in the effective tax rate occurred despite occasional reductions in the statutory corporate tax rate and the liberalization of statutory depreciation rules. The effective tax rate rose because the increasing rate of inflation caused a rise in the value of artificial tax accounting profits relative to real profits. The primary source of this was the reduced real value of depreciation of plant and equipment.

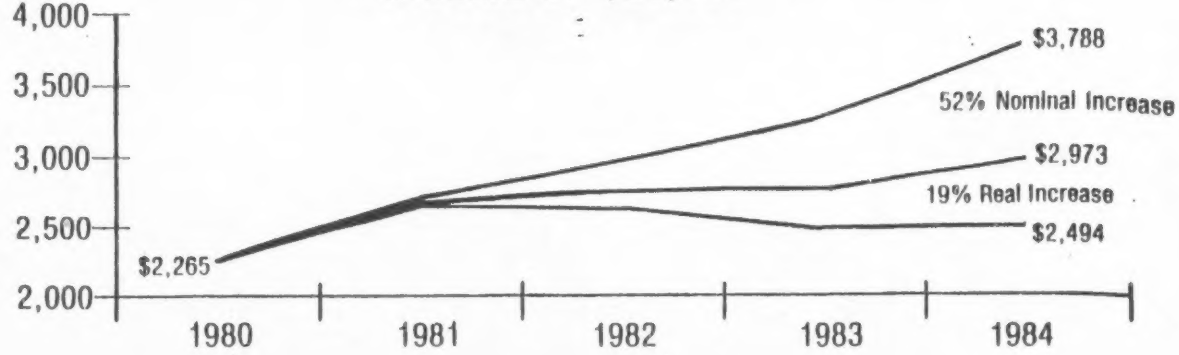
Although the Economic Recovery Tax Act increased the incentives for business plant and equipment investment, the effective tax rate on these investments still depends on the rate of inflation. For example, the combined capital cost recovery from the Investment Tax Credit and the ACRS depreciation schedule is 45.2 cents on the dollar at 4 percent inflation but only 41.8 cents on the dollar at 10 percent inflation. (In both cases a 7 percent real discount rate was assumed.) Under the tax rules in effect at the end of the 1970s, the combined cost recovery was only 39 cents at a 10 percent inflation, and actually even lower than that because inflation was higher than 10 percent. Thus, reducing the rate of inflation has had about as large a favorable effect on the value of depreciation allowances and therefore on the incentive to invest as the changes in the law did.

It is particularly important to take a long view when considering the effects of inflation and taxation on the incentives for business investment. The current performance of business investment is due to recession and high real interest rates. We should not be misled by this experience to underestimate the importance of low inflation and reasonable taxation of business investment for sustained economic growth.

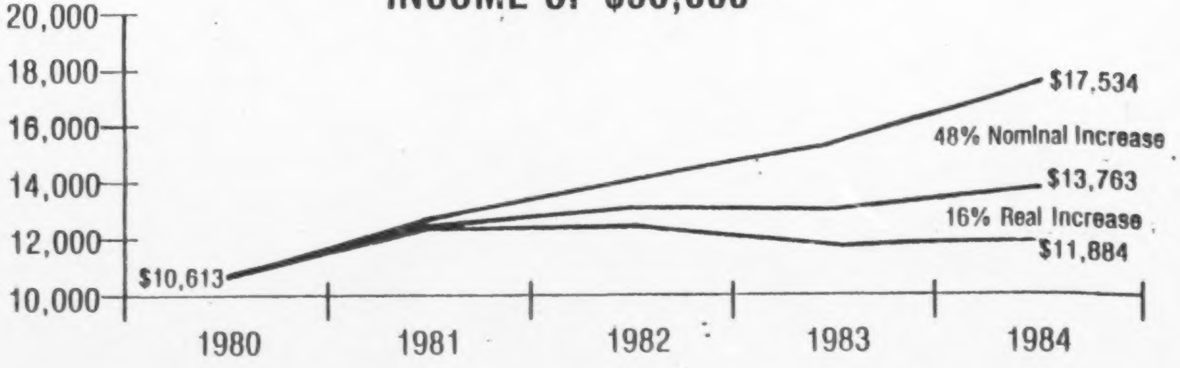
The goal of the Administration's economic policy is a balanced and sustained economic recovery with a declining rate of inflation. In contrast, the two long lasting expansions of the post-War period were accompanied by increasing inflation. When the 1961 recovery began, inflation was under 1 percent. By the time the expansion reached its peak in 1969, the inflation rate had increased to more than 6 percent. The expansion in the second half of the 1970s saw inflation rise from less than 5 percent in 1976 to more than 13 percent in 1979.

A balanced recovery that permits sustained expansion without increasing inflation will clearly not happen automatically. It requires sound monetary policy and budgetary changes that reduce the rate of growth of government spending and the corresponding size of the deficit. The path to relative price stability has been a painful one, but we are all beneficiaries of having made the choice to proceed. We must be certain not to return to the high inflation course of the 1970s.

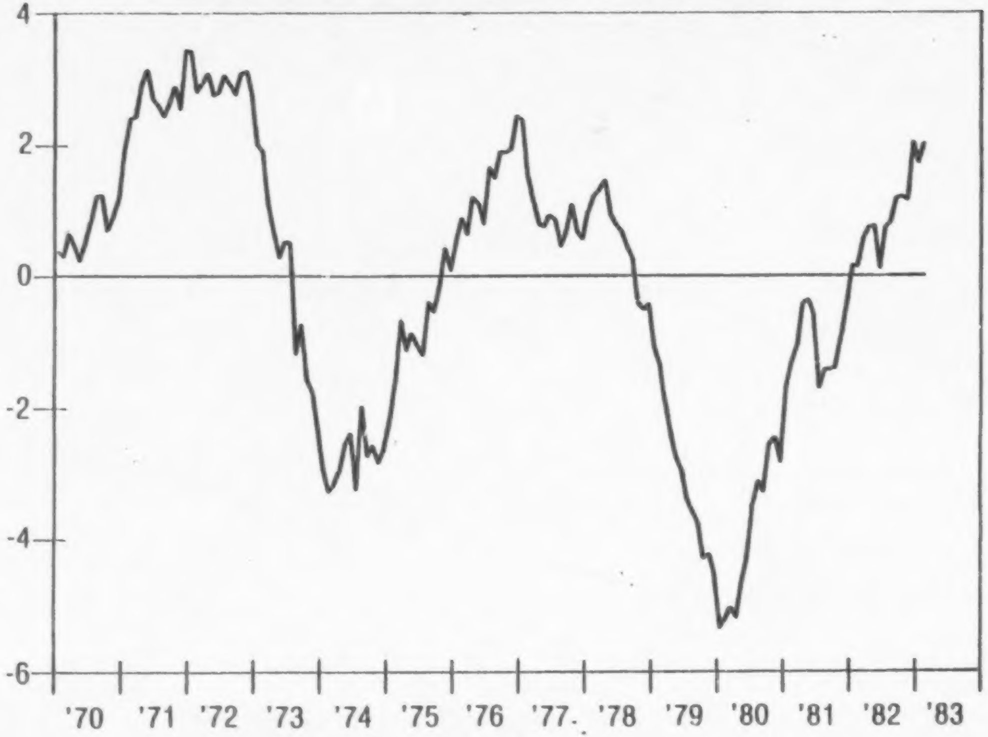
TAXES FOR A FAMILY WITH REAL 1980 INCOME OF $20,000



TAXES FOR A FAMILY WITH REAL 1980 INCOME OF $50,000



REAL AVERAGE HOURLY EARNINGS INDEX
PERCENT CHANGE FROM A YEAR AGO



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TRANSMISSION OF MATERIAL IN THIS RELEASE
IS EMBARGOED UNTIL 8:30 A.M. (EST)
Friday, April 22, 1983

> In accordance with plans announced in October of 1981, a new treatment of homeownership costs was introduced into the CPI for All Urban Consumers (CPI-U) with release of the January 1983 data on February 25. The CPI-U based on the old method for homeownership (CPI-U Old series) will be available through June 1983 (see tables 7 and 8). The CPI for Urban Wage Earners and Clerical Workers (CPI-W) will not be affected by this change until 1985. Additional information on the CPI homeownership change can be found beginning on page 4 of this release.

THE CONSUMER PRICE INDEX--MARCH 1983

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent before seasonal adjustment in March, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. The March level of 293.4 (1967=100) was 3.6 percent higher than the index in March 1982.

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) rose 0.2 percent in March, prior to seasonal adjustment, to a level of 293.0 (1967=100). For the 12-month period ended in March, the CPI-W has increased 3.7 percent. The CPI-W is used for indexing Social Security and some other Federal payments. It is also commonly used as an escalator in collective bargaining agreements.

CPI for All Urban Consumers (CPI-U)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers registered a 0.1 percent increase in March, following a decline of 0.2 percent in February. The small increase in March was attributable to an acceleration in the food and beverage and transportation components. The food and beverage index rose 0.6 percent in March, due to a sharp weather-induced increase in fresh vegetable prices. The transportation index, following a substantial drop in February, was unchanged in March, principally because of a much smaller

Table A. Percent Changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted								Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended Mar.'83	12-mos. ended Mar.'83
	1982				1983				
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.		
All items	.1	.4	0	-.3	.2	-.2	.1	.4	3.6
Food and beverages	.2	.2	0	0	.1	0	.6	3.0	2.8
Housing	-.1	.4	-.2	-.8	.5	0	-.1	1.6	3.9
Apparel and upkeep	.1	.3	-.1	-.3	.3	.5	-.1	2.9	1.8
Transportation	.1	.3	-.1	-.1	-.6	-1.6	0	-8.9	.8
Medical care	.9	.7	.9	.8	.8	.8	.5	8.8	10.5
Entertainment	.3	1.0	0	.1	.5	.4	.3	4.6	5.1
Other goods and services	1.2	1.7	1.2	1.4	1.1	.8	.3	9.1	11.8

decline in gasoline prices. Price changes in other major categories of consumer spending partially offset this acceleration. The housing and apparel and upkeep components declined slightly, while the indexes for medical care, entertainment, and other goods and services advanced more slowly than in February.

During the 3 months ended in March, the CPI-U rose at a seasonally adjusted annual rate of 0.4 percent, about the same as during the fourth quarter of 1982. A substantial decline in the transportation component, due to the drop in gasoline prices, kept the quarterly increase in the overall CPI small. The decline in transportation, combined with smaller increases in the medical care and other goods and services components, virtually offset the moderate acceleration in the housing, food and beverages, and apparel and upkeep categories.

Grocery store food prices advanced 0.9 percent in March, more than in the entire preceding 12-months. A 4.4 percent increase in the index for fruits and vegetables was almost entirely responsible for the increase. In particular, fresh vegetable prices rose sharply, reflecting reduced supplies caused by the rain storms in California and Florida. Other major grocery store food groups, however, continued to register moderate changes. The index for meats, poultry, fish, and eggs rose 0.2 percent, as small declines in beef, pork, poultry, and fish prices were more than offset by a 7.7 percent increase in egg prices. The index for dairy products was unchanged, while prices for cereal and bakery products -- up 0.4 percent -- rose only slightly more than in February. The other two components of the food and beverages index -- restaurant meals and alcoholic beverages -- rose 0.2 and 0.7 percent, respectively, in March.

The transportation component was unchanged in March, following four consecutive monthly declines. Declines in the indexes for gasoline, public transportation, and automobile finance charges were offset in March by increases in new and used car prices and automobile insurance. Gasoline prices declined 1.0 percent in March and were 17.4 percent below their peak level of 2 years ago. A decline in airline fares, the fourth in the last 5 months, was responsible for the 0.2 percent decrease in public transportation. Automobile finance charges -- down 1.9 percent -- declined for the eighth month in a row. On the other hand, new and used car prices rose 0.7 and 0.9 percent, respectively, following seasonal adjustment.

The housing index declined 0.1 percent in March, following no change in February. A decline in the index for fuel and other utilities was responsible for the decrease. Shelter costs were unchanged, and the index for household furnishings and operations registered a small increase. Fuel oil prices -- down 5.2 percent -- declined for the fourth consecutive month and more than offset the 1.5 percent increase in charges for utility (piped) gas. During the past 15 months, natural gas prices have increased nearly 30 percent. The index for electricity was unchanged in March. Within the shelter component, homeowners' costs were unchanged while renters' costs rose slightly. The index for maintenance and repairs, which pertains to both renters and homeowners, also rose slightly in March.

The March increase of 0.5 percent in the medical care component follows increases of 0.8 percent in each of the preceding 3 months. The index for medical care commodities, which includes prescription and non-prescription drugs and medical supplies, rose 1.0 percent. Within medical care services, charges for professional services and hospital rooms rose 0.4 and 0.7 percent, respectively.

The index for apparel and upkeep declined 0.1 percent in March, following an increase of 0.5 percent in February. The entertainment index rose 0.3 percent in March, following an increase of 0.4 percent in February. The smaller March increase in entertainment services, principally due to a decline in prices for admissions to concerts and plays, more than offset the larger increase this month in prices for entertainment commodities, in particular newspapers, magazines, periodicals, and books.

The 0.3 percent increase in the other goods and services component was the smallest since October 1979. Cigarette prices, which had increased 19.3 percent from September 1982 through February, advanced 0.1 percent in March. Personal care goods and services were unchanged, following a 0.7 percent increase in February.

CPI for Urban Wage Earners and Clerical Workers (CPI-W) -- Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for Urban Wage Earners and Clerical Workers rose 0.3 percent, following a decline of 0.2 percent in February. A larger increase in the housing component (up 0.4 percent in March, compared with 0.1 percent in February), an increase of 0.5 percent in food and beverage prices (following no change in February), and a much smaller decline in transportation costs (down 0.2 percent, compared with 1.7 percent) were largely responsible for the acceleration from February to March. The index for apparel and upkeep also rose slightly more in March -- up 0.5 percent. On the other hand, the medical care component moderated substantially, increasing 0.4 percent in March. The entertainment and other goods and services categories both registered increases of 0.3 percent.

The 0.3 percent rise in the CPI-W compares with an increase of 0.1 percent in the CPI-U. The CPI-U uses the new rental equivalence measure, which was unchanged in March, to measure shelter costs of homeowners. Homeownership in the CPI-W, which uses house prices, mortgage interest rates, property taxes, property insurance, and maintenance and repair costs, rose 0.8 percent in March. Increases in house prices, property insurance, property taxes, and maintenance and repair costs more than offset a decline in mortgage interest rates.

Table B. Percent Changes in CPI for Urban Wage Earners and Clerical Workers (CPI-W)

Expenditure category	Seasonally adjusted								Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended Mar.'83	12-mos. ended Mar.'83
	1982				1983				
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.		
All items	.1	.4	0	-.2	0	-.2	.3	.3	3.7
Food and beverages	.3	.2	0	0	.1	0	.5	2.6	2.8
Housing	-.1	.5	-.2	-.8	0	.1	.4	1.9	4.2
Apparel and upkeep	.4	.2	.1	-.2	0	.4	.5	3.4	1.8
Transportation	.1	.3	-.2	0	-.6	-1.7	-.2	-9.7	.7
Medical care	.8	.7	.9	.7	.9	.9	.4	9.2	10.3
Entertainment	.3	.9	-.1	.3	.4	.3	.3	4.3	4.9
Other goods and services	1.3	1.8	1.3	1.5	1.3	.8	.3	10.0	12.3

Location of information concerning the change in the CPI-U homeownership component

Announcement to users of the Consumer Price Index ....page 5

Table C. Relative importance of major groups and housing sub-groups (for the CPI-U and CPI-U (old series))..............................page 6

Table D. List of title and/or definition changes in CPI-U ....page 7-8

Numbered tables

CPI-U

1. Consumer Price Index for all urban consumers: U.S. City Average, by expenditure category and commodity and service group, 1967=100.
2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. City Average, by expenditure group and commodity and service group, 1967=100
3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted.

CPI-W

4. Consumer Price Index for urban wage earners and clerical workers: U.S. City Average, by expenditure category and commodity and service group, 1967=100.
5. Consumer Price Index for urban wage earners and clerical workers: Seasonally adjusted U.S. City Average, by expenditure group and commodity and service group, 1967=100
6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted.

CPI-U (Old Series)

7. Consumer Price Index for all urban consumers (old series): U.S. City Average, by expenditure category and commodity and service group, 1967=100.
8. Consumer Price Index for all urban consumers (old series): Selected areas, all items index, 1967=100 unless otherwise noted.

Announcement to Users: Homeownership Changes

Effective with release of the index for January 1983, the Bureau of Labor Statistics changed the way homeowner costs are measured in the CPI-U to rental equivalence. The rental equivalence approach calculates homeowner costs of the shelter based on the implicit rent owners would have to pay to rent the homes they own. The old method calculated homeowner costs as home purchase, mortgage interest costs, property taxes, property insurance and maintenance and repair.

As previously announced, the CPI-W will be changed to rental equivalence effective with data for January 1985. The CPI experimental measures, known as the CPI-U, X-1 through CPI-U, X-5 are no longer being published.

The new homeowners' cost component has been introduced into the CPI-U in such a manner that the indexes using the old and new methodologies are equal in the so-called link month -- December 1982. A similar technique will be employed for the CPI-W in December 1984. This technical procedure has been used in previous revisions of the CPI. In accordance with historical practice, BLS will make available to users, for a 6-month overlap period, calculations based on the old method of homeownership. In the case of the CPI-U, the overlap period will run from January to June 1983; for the CPI-W, the overlap period will run from January to June 1985.

The new homeowners' cost component is similar to the one used in the CPI-U, X-1, with 4 important refinements. First, BLS has calculated a set of owner weights for the individual units in the CPI rent sample. These new weights make the rent sample represent owner occupied housing and permit the calculation of a rent change estimate for homeowners.

Second, the Bureau has augmented the rent sample in order to enhance the rental equivalence measure. This new sampling is concentrated in areas where the housing is predominantly owner-occupied in order to increase the proportion of rental units that have characteristics similar to owner-occupied units.

Third, the expenditure weight for rental equivalence, which for the experimental index, X-1, was calculated by means of a short-cut method, has been recalculated using the complex statistical estimating procedure used for weights in the official CPI. In addition, the weights associated with other homeowner expenditures for such things as insurance, appliances, and maintenance and repairs have been modified to be consistent with the rental equivalence concept. This enhancement has improved the quality of the national CPI's rental equivalence weight and provides weights for computation of local area CPI-U's using the rental equivalence approach.

Finally, the computer system which produces the CPI each month has been expanded to accomodate the calculation, with complete item and geographic detail, and with proper geographic weighting for the rental equivalence approach. BLS will continue to work on other refinements in the statistical estimating techniques used in the rental equivalence measure. See tables C and D for a description of changes in the index structure. A more detailed description of the methods employed is available from BLS on request.

Table C. Relative importance, CPI-U and CPI-U (old series), December 1982

CPI-U		CPI-U (old series)	
Index title	Relative importance	Relative importance	Index title
All items	100.000	100.000	All items
Food and beverages	20.069	17.418	Food and beverages
Housing	37.721	45.948	Housing
Shelter	21.339	31.472	Shelter
Renters' costs	6.932		
Rent, residential	6.029	5.232	Rent, residential
Other renters' costs	0.904	0.784	Other rental costs
Homeowners' costs	13.881		
		25.455	Homeownership
Owners' equivalent rent	13.490		
Household insurance	0.391		
		9.914	Home purchase
		11.970	Financing, taxes, and insurance
Maintenance and repairs	0.526	3.570	Maintenance and repairs
Maintenance and repair services	0.284	2.794	Maintenance and repair services
Maintenance and repair commodities	0.242	0.777	Maintenance and repair commodities
Fuel and other utilities	8.377	7.270	Fuel and other utilities
Household furnishings and operation	8.005	7.206	Household furnishings and operation
Housefurnishings	4.091	3.809	Housefurnishings
Appliances including TV and sound equipment	1.208	1.306	Appliances including TV and sound equipment
Household appliances	0.542	0.728	Household appliances
Apparel and upkeep	5.205	4.517	Apparel and upkeep
Transportation	21.791	18.912	Transportation
Medical care	5.995	5.203	Medical care
Entertainment	4.206	3.651	Entertainment
Other goods and services	5.014	4.351	Other goods and services

Table D. Title and definition changes in the CPI-U, January 1983

New title	Old title	Definition change
Housing	Same	Excludes old-method items of home purchase, contracted mortgage interest costs, property taxes, capital improvements; includes new "Homeowners' cost" items.
Shelter	Same	Excludes old method items of home purchase, contracted mortage interest costs, property taxes, capital improvements; includes new "Homeowners' cost" items.
Renters' costs	New series	Combines "Rent, residential" and "Other rental costs."
Homeowners' costs	New series	Combines "Owners' equivalent rent" and "Household insurance."
Owners' equivalent rent	New series	Primary rental equivalence item; weight is derived from owners' estimates of their homes' rents which implicitly include some Maintenance and repairs and Appliances; price movement is from reweighted and especially augmented rent sample.
Household insurance	New series	Excludes from the old series "Property insurance" the part covered in "Owners' equivalent rent."
Maintenance and repairs	Same	Excludes the share of each item which is in "Owners' equivalent rent." Also excludes the old-method "Capital improvement items."
Maintenance and repair services	Same	Excludes the share of each item which is in "Owners' equivalent rent." Also excludes the old-method item "Capital improvement services."
Maintenance and repair commodities	Same	Excludes the share of each item which is in "Owners' equivalent rent." Also excludes the old-method item "Capital improvement commodities."
Household furnishings and operation	Same	Excludes the share of "Household appliances" covered in "Owners' equivalent rent."
Housefurnishings	Same	Excludes the share of "Household appliances" covered in "Owners' equivalent rent."
Appliances including TV and sound equipment	Same	Excludes the share of "Household appliances" covered in "Owners' equivalent rent."
Household appliances	Same	Excludes the share of "Household appliances" covered in "Owners' equivalent rent."
Commodities	Same	Excludes the share of "Maintenance and repair commodities" and "Household appliances" covered in "Owners' equivalent rent"; also excludes the old-method items "Home purchase" and "Capital improvement commodities."
Commodities less food and beverages	Same	Excludes the share of "Maintenance and repair commodities" and "Household appliances" covered in "Owners' equivalent rent"; also excludes the old-method items "Home purchase" and "Capital improvement commodities."
Commodities less food	Same	Excludes the share of "Maintenance and repair commodities" and "Household appliances" covered in "Owners' equivalent rent"; also excludes the old-method items "Home purchase" and "Capital improvement commodities."
Commodities less food and energy	Same	Excludes the share of "Maintenance and repair commodities" and "Household appliances" covered in "Owners' equivalent rent"; also excludes the old-method items "Home purchase" and "Capital improvement commodities."
Durables	Same	Excludes the share of "Maintenance and repair commodities" and "Household appliances" covered in "Owners' equivalent rent"; also excludes the old-method items "Home purchase" and "Capital improvement commodities."
Services	Same	Includes "Homeowners' costs"; excludes the old-method items "Contracted mortgage interest costs," "Property taxes," "Property insurance," and "Capital improvement services."

Table D. Continued—Title and definition of changes in the CPI-U, January 1983

New title	Old title	Definition change
Services less medical care	Same	Includes "Homeowners' costs"; excludes the old-method items "Contracted mortgage interest costs," "Property taxes," "Property insurance," and "Capital improvement services."
Services less energy	Same	Includes "Homeowners' costs"; excludes the old-method items "Contracted mortgage interest costs," "Property taxes," "Property insurance," and "Capital improvement services."
Rent of shelter	New series	Combines "Owners' equivalent rent," "Rent, residential," "Lodging while out of town," and "Lodging while at school."
Services less rent of shelter	New series	Combines "Household services less rent of shelter" with nonhousing services (transportation, medical care, and other services).
Household services less rent of shelter	New series	Combines "Maintenance and repair services," "Household insurance," "Tenants' insurance," "Gas and electricity," "Other utilities and public services," and "Housekeeping services."
Housekeeping and home maintenance services	Same	Excludes the share of "Maintenance and repair services" covered in "Owners' equivalent rent."

Technical Notes

Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. Effective with the January 1978 index, the Bureau of Labor Statistics began publishing CPI's for two population groups: (1) a new CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total noninstitutional civilian population; and (2) a revised CPI for Urban Wage Earners and Clerical Workers (CPI-W) which represents about half the population covered by the CPI-U. The CPI-U includes, in addition to wage earners and clerical workers, groups which historically have been excluded from CPI coverage, such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 85 urban areas across the country from about 18,000 tenants, 18,000 housing units for property taxes, and about 24,000 establishments—grocery and department stores, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of food, fuels, and a few other items are obtained every month in all 85 locations. Prices of most other commodities and services are collected every month in the five largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits of the Bureau's trained representatives. Mail questionnaires are used to obtain public utility rates, some fuel prices, and certain other items.

In calculating the index, price changes for the various items in each location are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 28 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period.

The index measures price changes from a designated reference date—1967—which equals 100.0. An increase of 122 percent, for example, is shown as 222.0. This change can also be expressed in dollars as follows: The price of a base period "market basket" of goods and services in the CPI has risen from $10 in 1967 to $22.20.

For further details see the following: *The Consumer Price Index: Concepts and Content Over the Years,* Report 517, revised edition (Bureau of Labor Statistics, May 1978); *The Revision of the Consumer Price Index,* by W. John Layng, reprinted from the *Statistical Reporter,* February 1978, No. 78-5 (U.S. Dept. of Commerce), *Revisions in the Medical Care Service Component of the Consumer Price Index,* by Daniel H. Ginsburg, *Monthly Labor Review,* August 1978; and *CPI Issues,* Report 593, (Bureau of Labor Statistics, February 1980).

A Note About Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change	
CPI	236.4
Less previous index	233.2
Equals index point change	3.2
Percent Change	
Index point difference	3.2
Divided by the previous index	233.2
Equals	.014
Results multiplied by one hundred	0.014×100
Equals percent change	1.4

A Note on Seasonally Adjusted and Unadjusted Data

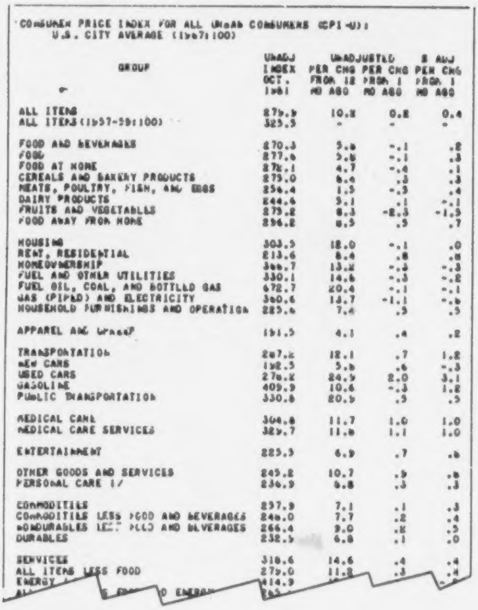
Because price data are used for different purposes by different groups, the Bureau of Labor Statistics publishes seasonally adjusted as well as unadjusted changes each month.

For analyzing general price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year - such as price movements resulting from changing climatic conditions, production cycles, model changeovers, holidays, and sales.

The unadjusted data are of primary interest to consumers concerned about the prices they actually pay. Unadjusted data also are used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index unadjusted for seasonal variation.

Seasonal factors used in computing the seasonally adjusted indexes are derived by the X-11 Variant of the Census Method II Seasonal Adjustment Program. The updated seasonal data at the end of 1977 replaced data from 1967 through 1977. Subsequent annual updates have replaced 5 years of seasonal data, e.g., data from 1978 through 1982 were replaced at the end of 1982. The seasonal movement of all items and 43 other aggregations is derived by combining the seasonal movement of 50 selected components. Each year the seasonal status of every series is reevaluated based upon certain statistical criteria. If any of the 50 selected components changes its seasonal status, seasonal data from 1967 forward for the all items and for any of the 43 other aggregations, that have that series as a component, are replaced.

CPI Data Available in 24-Hour Mailgram



CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U):
U.S. CITY AVERAGE (1967:100)

GROUP	UNADJ INDEX OCT. 1981	UNADJUSTED PER CHG FROM 12 MO AGO	PER CHG FROM 1 MO AGO	S ADJ PER CHG FROM 1 MO AGO
ALL ITEMS	279.9	10.2	0.2	0.4
ALL ITEMS (1957-59:100)	325.5	-	-	-
FOOD AND BEVERAGES	270.3	5.8	-.1	.2
FOOD	277.6	5.6	-.1	.3
FOOD AT HOME	272.1	4.7	-.4	.1
CEREALS AND BAKERY PRODUCTS	275.0	6.4	.3	.3
MEATS, POULTRY, FISH, AND EGGS	256.4	1.5	-.3	.4
DAIRY PRODUCTS	244.6	5.1	.1	-.1
FRUITS AND VEGETABLES	273.2	8.3	-2.3	-1.5
FOOD AWAY FROM HOME	296.2	8.5	.5	.7
HOUSING	303.5	12.0	-.1	.0
RENT, RESIDENTIAL	213.6	8.4	.8	.8
HOMEOWNERSHIP	366.7	13.2	-.3	-.3
FUEL AND OTHER UTILITIES	330.1	14.6	-.3	-.2
FUEL OIL, COAL, AND BOTTLED GAS	672.7	20.4	-.1	-.1
GAS (PIPED) AND ELECTRICITY	360.6	13.7	-1.1	-.6
HOUSEHOLD FURNISHINGS AND OPERATION	283.6	7.4	.5	.5
APPAREL AND UPKEEP	191.5	4.1	.4	.2
TRANSPORTATION	287.2	12.1	.7	1.2
NEW CARS	192.5	5.6	.6	-.3
USED CARS	276.2	24.9	2.0	3.1
GASOLINE	409.9	10.6	-.3	1.2
PUBLIC TRANSPORTATION	330.8	20.9	.5	.5
MEDICAL CARE	304.8	11.7	1.0	1.0
MEDICAL CARE SERVICES	329.7	11.8	1.1	1.0
ENTERTAINMENT	225.3	6.9	.7	.6
OTHER GOODS AND SERVICES	245.2	10.7	.9	.6
PERSONAL CARE 1/	236.9	6.8	.3	.3
COMMODITIES	257.9	7.1	.1	.3
COMMODITIES LESS FOOD AND BEVERAGES	246.0	7.7	.2	.4
NONDURABLES LESS FOOD AND BEVERAGES	266.4	9.0	.2	.5
DURABLES	232.5	6.8	.1	.0
SERVICES	318.6	14.6	.4	.4
ALL ITEMS LESS FOOD	279.0	11.2	.3	.4
ENERGY	414.9			

Consumer Price Index data are available by mailgram within 24 hours of the CPI release. The service is offered by the National Technical Information Service of the U.S. Department of Commerce.

The CPI MAILGRAM service provides unadjusted and seasonally adjusted U.S. City Average data both for the All Urban Consumers (CPI-U) and for the Urban Wage Earners and Clerical Workers (CPI-W) Indexes. The unadjusted data include the current month's index and the percent changes from 12 months ago and one month ago for 35 CPI components and groupings. The seasonally adjusted data are the percent changes from one month ago. Subscription price—$125 in contiguous U.S.

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TABLE 1. Consumer Price Index for all urban consumers: U.S. city average, by expenditure category and commodity and service group
1967=100

Group	Relative importance, December 1982	Unadjusted indexes		Unadjusted percent change to Mar. 1983 from-		Seasonally adjusted percent change from-		
		Feb. 1983	Mar. 1983	Mar. 1982	Feb. 1983	Dec. to Jan.	Jan. to Feb.	Feb. to Mar.
Expenditure category								
All items	100.000	293.2	293.4	3.6	0.1	0.2	-0.2	0.1
All items (1957-59=100)	-	341.0	341.2	-	-	-	-	-
Food and beverages	20.069	281.6	283.2	2.8	.6	.1	.0	.6
Food	18.963	289.0	290.5	2.7	.5	.1	.0	.6
Food at home	12.867	280.3	281.9	1.7	.6	.0	.0	.9
Cereals and bakery products 1/	1.700	288.7	289.8	3.0	.4	.5	.3	.4
Meats, poultry, fish, and eggs	4.216	264.0	264.2	2.8	.1	.3	.1	.2
Dairy products 1/	1.699	249.7	249.6	1.3	.0	.7	.1	.0
Fruits and vegetables	1.860	278.1	286.9	-2.1	3.2	-2.4	-1.0	4.4
Sugar and sweets 1/	.491	370.7	372.8	2.0	.6	.6	-.2	.6
Fats and oils 1/	.348	258.0	258.4	-.5	.2	.3	-.5	.2
Nonalcoholic beverages	1.409	432.2	432.7	1.9	.1	.7	-.3	.3
Other prepared foods 1/	1.143	275.1	276.0	3.6	.3	.7	.9	.3
Food away from home	6.097	315.2	316.5	4.7	.4	.3	.0	.2
Alcoholic beverages	1.106	213.3	215.1	4.1	.8	.1	.5	.7
Housing	37.721	318.5	318.6	3.9	.0	.5	.0	-.1
Shelter	21.339	339.2	339.3	3.6	.0	.7	.2	.0
Renters' costs 2/	6.932	101.2	101.4	-	.2	.6	.3	.2
Rent, residential 1/	6.029	233.1	233.6	6.4	.2	.6	.4	.2
Other renters' costs	.904	340.8	340.6	6.4	-.1	.3	-.1	-.1
Homeowners' costs 1/ 2/	13.881	100.9	100.9	-	.0	.7	.2	.0
Owners' equivalent rent 1/ 2/	13.490	100.9	100.8	-	-.1	.7	.2	-.1
Household insurance 1/ 2/	.391	100.9	101.5	-	.6	.9	.0	.6
Maintenance and repairs 1/	.526	339.4	339.9	3.9	.1	1.5	-1.0	.1
Maintenance and repair services 1/	.284	373.6	376.7	5.3	.8	2.5	-1.8	.8
Maintenance and repair commodities 1/	.242	259.3	257.7	1.1	-.6	.3	.0	-.6
Fuel and other utilities	8.377	364.6	363.8	7.2	-.2	-.2	-.5	-.5
Fuels	6.214	461.5	459.7	6.8	-.4	-.6	-.8	-.8
Fuel oil, coal, and bottled gas	1.552	654.0	625.3	-5.8	-4.4	-4.0	-4.3	-4.5
Gas (piped) and electricity	4.651	414.5	418.0	11.2	.8	.5	.2	.3
Other utilities and public services 1/	2.163	210.9	211.4	8.4	.2	1.7	.4	.2
Household furnishings and operation	8.005	236.7	237.6	2.6	.4	.1	.0	.2
Housefurnishings	4.091	195.9	197.1	2.3	.6	-.1	.0	.2
Housekeeping supplies	1.686	294.8	295.4	3.9	.2	.5	-.2	.2
Housekeeping services 1/	2.228	315.9	316.4	2.1	.2	.1	.2	.2
Apparel and upkeep	5.205	192.0	194.5	1.8	1.3	.3	.5	-.1
Apparel commodities	4.422	180.2	182.8	1.1	1.4	.3	.6	-.1
Men's and boys' apparel	1.434	184.4	186.7	2.8	1.2	.8	-.1	.1
Women's and girls' apparel	1.592	155.7	160.0	-.2	2.8	-.7	1.1	-.3
Infants' and toddlers' apparel 1/	.117	278.8	280.1	5.8	.5	1.5	.6	.5
Footwear	.678	205.6	206.6	.8	.5	.8	.7	-.4
Other apparel commodities 1/	.602	213.4	213.4	.3	.0	.7	.9	.0
Apparel services	.783	285.4	286.7	5.7	.5	.1	.1	.4
Transportation	21.791	289.9	287.4	.8	-.9	-.6	-1.6	.0
Private transportation	20.250	285.2	282.7	.5	-.9	-.8	-1.7	.0
New vehicles 3/	3.936	201.2	201.1	3.4	.0	.1	.9	.6
New cars	3.506	201.3	201.2	3.5	.0	.1	.9	.7
Used cars	4.056	309.1	309.3	10.1	.1	.9	.8	.9
Motor fuel	6.191	359.7	348.8	-9.2	-3.0	-3.3	-6.7	-1.0
Gasoline		359.4	348.6	-9.2	-3.0	-3.3	-6.7	-1.0
Maintenance and repair	1.707	325.9	326.6	5.3	.2	.4	.2	.1
Other private transportation 1/	4.360	259.7	259.2	1.8	-.2	.1	-.1	-.2
Other private trans. commodities 1/	.745	215.0	213.3	-1.1	-.8	.6	-.3	-.8
Other private trans. services 1/	3.615	274.1	273.9	2.5	-.1	.0	.0	-.1
Public transportation 1/	1.541	355.2	354.5	5.3	-.2	.6	-.7	-.2
Medical care	5.995	351.3	352.3	10.5	.3	.8	.8	.5
Medical care commodities	.976	216.7	218.6	9.3	.9	.7	.3	1.0
Medical care services	5.019	381.5	382.2	10.8	.2	.9	1.0	.4
Professional services 1/	2.272	315.4	316.7	7.1	.4	1.0	.9	.4
Other medical care services	2.748	461.3	461.4	14.0	.0	.6	1.0	.3
Entertainment	4.206	243.1	244.6	5.1	.6	.5	.4	.3
Entertainment commodities	2.485	244.5	246.8	4.3	.9	.2	.3	.4
Entertainment services 1/	1.721	241.6	241.9	6.2	.1	1.0	.5	.1
Other goods and services	5.014	281.6	281.9	11.8	.1	1.1	.8	.3
Tobacco products 1/	1.387	282.8	283.3	21.0	.2	2.9	.9	.2
Personal care 1/	1.857	257.8	257.8	5.8	.0	.5	.7	.0
Toilet goods and personal care appliances 1/	.850	256.0	257.1	6.9	.4	.7	.8	.4
Personal care services 1/	1.007	260.4	259.5	4.9	-.3	.4	.5	-.3
Personal and educational expenses	1.770	323.3	323.9	11.5	.2	.5	.9	.8
School books and supplies	.220	292.0	292.3	11.0	.1	.4	1.4	.9
Personal and educational services	1.549	331.0	331.5	11.6	.2	.5	.9	.8
Commodity and service group								
All items	100.000	293.2	293.4	3.6	0.1	0.2	-0.2	0.1
Commodities	52.908	266.7	266.7	3.1	.0	-.1	-.7	.2
Food and beverages	20.069	281.6	283.2	2.8	.6	.1	.0	.6
Commodities less food and beverages	32.839	255.2	254.3	2.9	-.4	-.3	-1.1	-.1
Nondurables less food and beverages 1/	19.781	265.2	263.4	.0	-.7	-1.0	-.8	-.7
Apparel commodities	4.422	180.2	182.8	1.1	1.4	.3	.6	-.1
Nondurables less food, beverages, and apparel 1/	15.359	313.4	309.3	-.3	-1.3	-.8	-1.2	-1.3
Durables	13.058	247.1	247.4	6.0	.1	.5	.3	.8
Services	47.092	338.9	339.4	4.3	.1	.5	.3	.1
Rent of shelter 1/ 2/	20.340	101.0	101.0	-	.0	.7	.3	.0
Household services less rent of shelter 1/ 2/	9.810	101.0	101.6	-	.6	.9	.1	.6
Transportation services	6.863	299.9	299.8	3.8	.0	.2	-.1	.0
Medical care services	5.019	381.5	382.2	10.8	.2	.9	1.0	.4
Other services	5.060	272.6	272.9	7.4	.1	.4	.6	.3
Special indexes:								
All items less food	81.037	292.6	292.4	3.8	-.1	.3	-.3	.1
All items less shelter	78.661	278.5	278.7	3.8	.1	.0	-.4	.2
All items less homeowners' costs 2/	86.119	100.2	100.3	-	.1	.1	-.3	.2
All items less medical care	94.005	290.0	290.1	3.3	.0	.2	-.3	.1
Commodities less food	33.945	253.2	252.4	2.9	-.3	-.3	-1.0	-.1
Nondurables less food 1/	20.886	260.5	258.9	.2	-.6	-.9	-.7	-.6
Nondurables less food and apparel 1/	16.464	299.9	296.5	.0	-1.1	-.7	-1.1	-1.1
Nondurables	39.850	274.6	274.4	1.4	-.1	-.7	-.9	.0
Services less rent of shelter 1/ 2/	26.752	101.0	101.3	-	.3	.7	.3	.3
Services less medical care 1/	42.073	332.2	332.7	3.6	.2	.6	.2	.2
Energy 4/	12.405	406.7	399.9	-1.5	-1.7	-2.5	-3.7	-.9
All items less energy	87.595	284.7	285.6	4.4	.3	.4	.3	.3
All items less food and energy	68.632	282.0	282.6	4.7	.2	.5	.4	.2
Commodities less food and energy	26.201	237.9	239.1	6.1	.5	.5	.5	.4
Energy commodities	7.744	401.6	388.3	-8.5	-3.3	-4.4	-6.2	-1.7
Services less energy	42.431	332.9	333.1	3.6	.1	.5	.3	.1
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.341	$.341	-3.4	.0	-.3	.0	.0
1957-59=$1.00 1/	-	.293	.293	-	-	-	-	-

1/ Not seasonally adjusted.
2/ Indexes on a December 1982=100 base.
3/ New series; includes direct pricing of new trucks and motorcycles as of September 1982.
4/ Excludes motor oil, coolant, and other products as of January 1983.
NOTE: Index applies to a month as a whole, not to any specific date.

CPI-U

TABLE 2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in				6 months ending	
	Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	June 1982	Sept. 1982	Dec. 1982	Mar. 1983	Sept. 1982	Mar. 1983
					Expenditure category					
All items	-	-	-	-	9.8	4.1	0.5	0.4	6.9	0.5
Food and beverages	280.6	280.9	281.0	282.7	6.1	.9	.9	3.0	3.4	1.9
Food	288.1	288.3	288.3	290.1	6.2	.6	.8	2.8	3.4	1.8
Food at home	279.4	279.5	279.4	281.8	6.7	-1.8	-1.1	3.5	2.3	1.1
Cereals and bakery products 1/	286.3	287.8	288.7	289.8	3.3	1.4	2.4	5.0	2.4	3.7
Meats, poultry, fish, and eggs	261.7	262.5	262.7	263.3	17.1	.8	-7.0	2.5	8.6	-2.4
Dairy products 1/	247.8	249.5	249.7	249.6	-.3	1.1	1.3	2.9	.4	2.1
Fruits and vegetables	286.2	279.3	276.4	288.6	3.2	-15.9	2.3	3.4	-6.9	2.8
Sugar and sweets 1/	369.2	371.5	370.7	372.8	1.4	4.9	-2.1	4.0	3.1	.9
Fats and oils 1/	258.6	259.3	258.0	258.4	1.7	-3.5	.3	-.3	-.9	.0
Nonalcoholic beverages	427.6	430.7	429.6	431.0	1.7	-.9	3.3	3.2	.4	3.3
Other prepared foods 1/	270.7	272.6	275.1	276.0	2.0	3.2	1.2	8.1	2.6	4.6
Food away from home	313.9	314.8	314.9	315.6	5.3	6.2	5.0	2.2	5.7	3.6
Alcoholic beverages	212.0	212.2	213.3	214.7	3.5	4.3	3.5	5.2	3.9	4.3
Housing	317.4	318.9	318.9	318.7	13.7	3.2	-2.4	1.6	8.3	-.4
Shelter	336.0	338.3	339.1	339.2	17.1	2.0	-7.2	3.9	9.3	-1.8
Renters' costs 2/	100.2	100.8	101.1	101.3	-	-	-	4.5	-	-
Rent, residential 1/	230.8	232.2	233.1	233.6	5.6	8.0	7.1	4.9	6.8	6.0
Other renters' costs	338.9	339.9	339.4	338.9	10.7	18.4	-2.3	.0	14.5	-1.2
Homeowners' costs 1/ 2/	100.0	100.7	100.9	100.9	-	-	-	3.6	-	-
Owners' equivalent rent 1/ 2/	100.0	100.7	100.9	100.8	-	-	-	3.2	-	-
Household insurance 1/ 2/	100.0	100.9	100.9	101.5	-	-	-	6.1	-	-
Maintenance and repairs 1/	337.8	342.9	339.4	339.9	11.3	2.8	-.7	2.5	7.0	.9
Maintenance and repair services 1/	371.4	380.6	373.6	376.7	13.2	3.7	-1.2	5.8	8.4	2.3
Maintenance and repair commodities 1/	258.5	259.4	259.3	257.7	5.3	-.9	1.2	-1.2	2.1	.0
Fuel and other utilities	369.6	368.9	366.9	365.1	9.3	10.7	14.2	-4.8	10.0	4.3
Fuels	472.4	469.5	465.6	462.0	8.6	12.3	17.1	-8.5	10.4	3.5
Fuel oil, coal, and bottled gas	696.4	668.4	639.9	611.2	3.1	14.0	12.6	-40.7	8.4	-18.3
Gas (piped) and electricity	419.2	421.1	422.1	423.5	10.5	11.7	18.7	4.2	11.1	11.2
Other utilities and public services 1/	206.6	210.1	210.9	211.4	11.5	6.5	6.0	9.6	9.0	7.8
Household furnishings and operation	236.4	236.7	236.7	237.1	3.7	1.7	3.8	1.2	2.7	2.5
Housefurnishings	196.2	196.1	196.1	196.5	4.2	.2	4.2	.6	2.2	2.4
Housekeeping supplies	293.3	294.9	294.2	294.8	3.3	5.6	4.9	2.1	4.4	3.5
Housekeeping services 1/	315.0	315.4	315.9	316.4	2.3	2.2	2.1	1.8	2.3	1.9
Apparel and upkeep	192.7	193.2	194.2	194.1	1.9	2.7	-.2	2.9	2.3	1.4
Apparel commodities	181.1	181.6	182.7	182.5	1.1	2.0	-1.5	3.1	1.6	.8
Men's and boys' apparel	185.7	187.1	187.0	187.1	4.2	2.9	1.1	3.0	3.5	2.1
Women's and girls' apparel	158.6	157.5	159.2	158.7	.3	.3	-1.7	.3	.3	-.8
Infants' and toddlers' apparel 1/	273.1	277.1	278.8	280.1	6.2	12.6	-5.2	10.7	9.4	2.4
Footwear	204.5	206.2	207.7	206.8	2.2	-.8	-2.7	4.6	.7	.9
Other apparel commodities 1/	210.1	211.5	213.4	213.4	-5.2	5.2	-4.6	6.4	-.1	.8
Apparel services	284.3	284.5	284.8	285.8	6.2	7.9	6.6	2.1	7.1	4.3
Transportation	295.8	293.9	289.1	289.0	7.0	5.7	.3	-8.9	6.4	-4.4
Private transportation	291.7	289.4	284.4	284.4	6.8	5.5	.1	-9.6	6.2	-4.9
New vehicles 3/	199.1	199.3	201.0	202.3	3.3	5.0	-1.0	6.6	4.1	2.7
New cars	199.3	199.4	201.1	202.6	3.1	5.0	-.6	6.8	4.0	3.0
Used cars	308.1	311.0	313.5	316.3	16.8	4.2	8.6	11.1	10.3	9.8
Motor fuel	391.2	378.3	353.0	349.5	2.5	9.2	-4.8	-36.3	5.8	-22.1
Gasoline	390.8	377.9	352.7	349.3	2.7	9.2	-5.1	-36.2	5.9	-22.2
Maintenance and repair	323.7	325.1	325.6	325.9	8.8	6.2	3.7	2.7	7.5	3.2
Other private transportation 1/	259.6	259.9	259.7	259.2	6.8	2.0	-.6	-.6	4.4	-.6
Other private trans. commodities 1/	214.3	215.6	215.0	213.3	3.6	-6.5	.8	-1.9	-1.6	-.6
Other private trans. services 1/	274.2	274.2	274.1	273.9	7.7	3.7	-.7	-.4	5.7	-.6
Public transportation 1/	355.6	357.7	355.2	354.5	11.0	9.2	2.6	-1.2	10.1	.7
Medical care	344.4	347.2	350.1	351.7	11.9	11.6	10.0	8.8	11.8	9.4
Medical care commodities	214.3	215.9	216.5	218.6	10.4	10.1	8.7	8.3	10.3	8.5
Medical care services	373.2	376.4	380.0	381.4	12.3	11.9	10.1	9.1	12.1	9.6
Professional services 1/	309.4	312.5	315.4	316.7	7.5	6.4	4.7	9.8	6.9	7.2
Other medical care services	450.8	453.6	458.1	459.6	16.5	16.9	14.9	8.0	16.7	11.4
Entertainment	241.1	242.2	243.1	243.8	5.6	5.4	4.6	4.6	5.5	4.6
Entertainment commodities	243.4	243.8	244.5	245.6	6.1	3.6	4.2	3.7	4.8	3.9
Entertainment services 1/	238.2	240.5	241.6	241.9	4.8	8.4	5.2	6.4	6.6	5.8
Other goods and services	275.9	278.8	281.1	282.0	9.0	10.3	18.4	9.1	9.6	13.7
Tobacco products 1/	272.3	280.3	282.8	283.3	6.5	16.0	48.2	17.2	11.1	31.8
Personal care 1/	254.8	256.1	257.8	257.8	6.9	5.4	6.0	4.8	6.2	5.4
Toilet goods and personal care appliances 1/	252.2	253.9	256.0	257.1	9.8	4.6	5.1	8.0	7.2	6.5
Personal care services 1/	258.0	259.0	260.4	259.5	4.6	6.1	6.8	2.3	5.3	4.5
Personal and educational expenses	317.2	318.7	321.6	324.1	13.1	11.7	12.2	9.0	12.4	10.6
School books and supplies	282.5	283.6	287.7	290.3	13.0	13.1	6.8	11.5	13.0	9.1
Personal and educational services	325.4	326.9	329.7	332.2	13.1	11.5	13.0	8.6	12.3	10.8
					Commodity and service group					
All items	-	-	-	-	9.8	4.1	0.5	0.4	6.9	0.5
Commodities	268.4	268.1	266.3	266.8	8.8	3.2	3.0	-2.4	6.0	.3
Food and beverages	280.6	280.9	281.0	282.7	6.1	.9	.9	3.0	3.4	1.9
Commodities less food and beverages	258.5	257.7	254.9	254.7	10.2	4.2	4.1	-5.8	7.2	-.9
Nondurables less food and beverages 1/	270.0	267.4	265.2	263.4	4.5	5.5	.1	-9.4	5.0	-4.8
Apparel commodities	181.1	181.6	182.7	182.5	1.1	2.0	-1.5	3.1	1.6	.8
Nondurables less food, beverages, and apparel 1/	319.6	317.1	313.4	309.3	6.3	4.4	1.4	-12.3	5.4	-5.7
Durables	246.3	247.5	248.3	250.2	12.4	.7	4.9	6.5	6.4	5.7
Services	336.7	338.3	339.3	339.8	11.2	5.1	-2.8	3.7	8.1	.4
Rent of shelter 1/ 2/	100.0	100.7	101.0	101.0	-	-	-	4.1	-	-
Household services less rent of shelter 1/ 2/	100.0	100.9	101.0	101.6	-	-	-	6.6	-	-
Transportation services	299.5	300.2	299.8	299.7	8.7	5.5	1.1	.3	7.1	.7
Medical care services	373.2	376.4	380.0	381.4	12.3	11.9	10.1	9.1	12.1	9.6
Other services	269.6	270.7	272.2	272.9	7.4	8.8	8.1	5.0	8.1	6.5
Special indexes:										
All items less food	292.6	293.4	292.6	292.8	10.6	6.8	.3	.3	7.7	.3
All items less shelter	279.3	279.4	278.4	279.0	6.6	5.1	4.3	-.4	5.8	1.9
All items less homeowners' costs 2/	100.4	100.5	100.2	100.4	-	-	-	.0	-	-
All items less medical care	290.2	290.8	290.0	290.4	9.7	3.7	.0	.3	6.7	.1
Commodities less food	256.3	255.6	253.0	252.8	10.0	4.2	4.0	-5.4	7.1	-.8
Nondurables less food 1/	264.7	262.4	260.5	258.9	4.4	5.3	.2	-8.5	4.9	-4.3
Nondurables less food and apparel 1/	305.2	303.1	299.9	296.5	6.1	4.3	1.3	-10.9	5.2	-5.0
Nondurables	278.0	276.0	273.5	273.6	5.8	3.3	3.1	-6.2	4.5	-1.7
Services less rent of shelter 1/ 2/	100.0	100.7	101.0	101.3	-	-	-	5.3	-	-
Services less medical care 1/	329.3	331.4	332.2	332.7	12.5	5.1	-6.4	4.2	8.7	-1.3
Energy 4/	431.3	420.5	404.9	401.3	7.5	8.1	10.2	-25.1	7.8	-9.1
All items less energy	282.9	284.0	284.8	285.7	9.0	4.4	-.3	4.0	6.7	1.8
All items less food and energy	279.9	281.3	282.3	282.9	9.6	4.7	-.3	4.4	7.1	2.0
Commodities less food and energy	236.5	237.8	238.9	239.8	9.9	2.4	5.4	5.7	6.1	5.6
Energy commodities	439.3	419.9	393.9	387.2	4.4	6.1	6.4	-39.6	5.3	-19.9
Services less energy	330.0	331.6	332.6	333.0	11.3	4.6	-4.8	3.7	7.9	-.7

1/ Not seasonally adjusted.
2/ Indexes on a December 1982=100 base
3/ New series; includes direct pricing of new trucks and motorcycles as of September 1982.
4/ Excludes motor oil, coolant, and other products as of January 1983.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes				Percent change to Mar. 1983 from-			Percent change to Feb. 1983 from-		
			Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	Mar. 1982	Jan. 1983	Feb. 1983	Feb. 1982	Dec. 1982	Jan. 1983
U.S. city average			292.4	293.1	293.2	293.4	3.6	0.1	0.1	3.5	0.3	0.0
Chicago, Ill.-Northwestern Ind.	M		293.1	294.0	293.7	293.7	6.3	-.1	.0	6.8	.2	-.1
Detroit, Mich.	M		292.6	292.6	292.3	292.4	5.1	-.1	.0	5.2	-.1	-.1
L.A.-Long Beach, Anaheim, Calif.	M		285.3	285.6	286.8	287.1	.2	.5	.1	.5	.5	.4
N.Y., N.Y.-Northeastern N.J.	M		281.8	282.6	283.2	283.5	6.0	.3	.1	5.3	.5	.2
Philadelphia, Pa.-N.J.	M		281.6	282.1	282.0	283.0	3.0	.3	.4	2.4	.1	.0
Anchorage, Alaska	1	10/67	-	257.6	-	261.0	.4	1.3	-	-	-	-
Baltimore, Md.	1		-	291.4	-	292.8	3.9	.5	-	-	-	-
Boston, Mass.	1		-	286.8	-	285.9	6.0	-.3	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	306.0	-	307.6	8.0	.5	-	-	-	-
Denver-Boulder, Colo.	1		-	327.5	-	329.6	6.6	.6	-	-	-	-
Miami, Fla.	1	11/77	-	157.9	-	159.0	2.5	.7	-	-	-	-
Milwaukee, Wis.	1		-	305.0	-	305.0	5.4	.0	-	-	-	-
Northeast Pennsylvania	1		-	278.9	-	278.9	4.4	.0	-	-	-	-
Portland, Oreg.-Wash.	1		-	286.6	-	284.7	-.7	-.7	-	-	-	-
St. Louis, Mo.-Ill.	1		-	291.1	-	293.2	4.5	.7	-	-	-	-
San Diego, Calif.	1		-	324.9	-	327.5	2.7	.8	-	-	-	-
Seattle-Everett, Wash.	1		-	297.5	-	297.8	1.5	.1	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	289.0	-	289.0	3.7	.0	-	-	-	-
Atlanta, Ga.	2		296.1	-	295.1	-	-	-	-	5.5	-.3	-
Buffalo, N.Y.	2		277.8	-	280.3	-	-	-	-	7.8	.9	-
Cleveland, Ohio	2		317.6	-	319.9	-	-	-	-	11.9	.7	-
Dallas-Fort Worth, Tex.	2		303.3	-	304.5	-	-	-	-	3.7	.4	-
Honolulu, Hawaii	2		269.9	-	270.4	-	-	-	-	3.2	.2	-
Houston, Tex.	2		318.1	-	317.3	-	-	-	-	4.3	-.3	-
Kansas City, Mo.-Kans.	2		290.6	-	292.3	-	-	-	-	5.9	.6	-
Minneapolis-St.Paul, Minn.-Wis.	2		306.1	-	305.8	-	-	-	-	-.1	-.1	-
Pittsburgh, Pa.	2		302.1	-	304.8	-	-	-	-	9.4	.9	-
San Francisco-Oakland, Calif.	2		293.9	-	297.3	-	-	-	-	.5	1.2	-
Region 3/												
Northeast	2	12/77	153.9	-	154.6	-	-	-	-	4.7	.5	-
North Central	2	12/77	159.7	-	159.8	-	-	-	-	5.1	.1	-
South	2	12/77	158.6	-	158.9	-	-	-	-	3.0	.2	-
West	2	12/77	156.2	-	156.9	-	-	-	-	.5	.4	-
Population size class 3/												
A-1	2	12/77	154.0	-	154.5	-	-	-	-	4.0	.3	-
A-2	2	12/77	159.2	-	160.0	-	-	-	-	3.7	.5	-
B	2	12/77	158.5	-	159.0	-	-	-	-	2.6	.3	-
C	2	12/77	157.3	-	157.5	-	-	-	-	3.1	.1	-
D	2	12/77	157.7	-	157.8	-	-	-	-	3.9	.1	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	151.0	-	151.8	-	-	-	-	5.3	.5	-
North Central/A	2	12/77	162.0	-	162.4	-	-	-	-	5.7	.2	-
South/A	2	12/77	157.5	-	158.0	-	-	-	-	3.5	.3	-
West/A	2	12/77	156.9	-	157.8	-	-	-	-	-.1	.6	-
Northeast/B	2	12/77	157.1	-	158.2	-	-	-	-	5.0	.7	-
North Central/B	2	12/77	159.3	-	159.6	-	-	-	-	5.1	.2	-
South/B	2	12/77	159.3	-	159.5	-	-	-	-	1.5	.1	-
West/B	2	12/77	157.9	-	158.3	-	-	-	-	.8	.3	-
Northeast/C	2	12/77	162.3	-	162.9	-	-	-	-	3.0	.4	-
North Central/C	2	12/77	156.2	-	155.8	-	-	-	-	4.5	-.3	-
South/C	2	12/77	158.8	-	159.0	-	-	-	-	3.2	.1	-
West/C	2	12/77	150.1	-	151.0	-	-	-	-	.5	.6	-
Northeast/D	2	12/77	156.3	-	156.1	-	-	-	-	3.1	-.1	-
North Central/D	2	12/77	156.8	-	156.6	-	-	-	-	3.7	-.1	-
South/D	2	12/77	159.1	-	159.5	-	-	-	-	4.7	.3	-
West/D	2	12/77	157.8	-	157.9	-	-	-	-	3.0	.1	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Local area CPI indexes are by-products of the national CPI program. Because each local index is a small subset of the national index, it has a smaller sample size and is, therefore, subject to substantially more sampling and other measurement error than the national index. As a result, local area indexes show greater volatility than the national index, although their long-term trends are quite similar. Therefore, the Bureau of Labor Statistics strongly urges users to consider adopting the national average CPI for use in escalator clauses.

CPI-W

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1982	Unadjusted indexes		Unadjusted percent change to Mar. 1983 from–		Seasonally adjusted percent change from–		
		Feb. 1983	Mar. 1983	Mar. 1982	Feb. 1983	Dec. to Jan.	Jan. to Feb.	FEB. to Mar.
				Expenditure category				
All items	100.000	292.3	293.0	3.7	0.2	0.0	-0.2	0.3
All items (1957-59=100)	-	339.9	340.8	-	-	-	-	-
Food and beverages	19.012	282.1	283.5	2.8	.5	.1	.0	.5
Food	17.964	289.3	290.7	2.7	.5	.1	.0	.5
Food at home	12.298	279.7	281.2	1.8	.5	.0	.0	.6
Cereals and bakery products 1/	1.626	287.4	288.5	3.0	.4	.5	.3	.4
Meats, poultry, fish, and eggs	4.086	263.9	264.0	3.0	.0	.2	.2	.2
Dairy products 1/	1.620	249.1	248.9	1.2	-.1	.7	.1	-.1
Fruits and vegetables	1.663	274.5	282.9	-2.1	3.1	-2.7	-1.0	3.3
Sugar and sweets 1/	.457	370.6	372.5	1.9	.5	.6	-.2	.5
Fats and oils 1/	.327	258.1	258.4	-.5	.1	.2	-.5	.1
Nonalcoholic beverages	1.403	433.9	434.5	1.9	.1	.8	-.3	.2
Other prepared foods 1/	1.115	276.8	277.5	3.5	.3	.7	.9	.3
Food away from home	5.666	318.4	319.7	4.7	.4	.4	-.1	.3
Alcoholic beverages	1.048	215.6	217.3	4.1	.8	.1	.7	.5
Housing	42.686	317.6	319.2	4.2	.5	.0	.1	.4
Shelter	28.660	338.8	341.1	3.8	.7	-.1	.3	.6
Rent, residential 1/	4.946	232.5	233.1	6.4	.3	.6	.3	.3
Other rental costs	.535	339.0	339.0	6.3	.0	.3	.0	-.2
Homeownership	23.179	376.9	379.9	3.3	.8	-.2	.3	.8
Home purchase 1/	6.715	293.7	298.9	11.9	1.8	.3	.6	1.8
Financing, taxes, and insurance 1/	11.285	491.3	491.8	-3.0	.1	-1.1	.2	.1
Maintenance and repairs	3.180	336.2	337.5	4.3	.4	1.0	-.4	.2
Maintenance and repair services	2.322	374.5	376.6	5.0	.6	1.1	-.7	.4
Maintenance and repair commodities 1/	.857	254.5	254.2	2.3	-.1	.5	.4	-.1
Fuel and other utilities	7.176	365.9	365.2	7.3	-.2	-.2	-.5	-.5
Fuels	5.371	461.2	459.5	6.9	-.4	-.6	-.8	-.7
Fuel oil, coal, and bottled gas	1.345	656.0	627.3	-5.9	-4.4	-3.0	-4.5	-4.4
Gas (piped) and electricity	4.026	413.8	417.5	11.4	.9	.4	.4	.4
Other utilities and public services 1/	1.805	211.6	212.2	8.6	.3	1.7	.3	.3
Household furnishings and operation	6.850	233.4	234.6	2.9	.5	.3	.0	.3
Housefurnishings	3.881	193.8	195.3	2.6	.8	.3	.0	.4
Housekeeping supplies	1.500	291.6	292.2	4.2	.2	.7	-.1	.1
Housekeeping services 1/	1.468	315.6	316.1	2.6	.2	.2	.2	.2
Apparel and upkeep	4.530	191.0	194.0	1.8	1.6	.0	.4	.5
Apparel commodities	3.881	179.7	182.9	1.2	1.8	.1	.4	.5
Men's and boys' apparel	1.245	184.8	187.0	3.0	1.2	.6	-.2	.1
Women's and girls' apparel	1.422	157.2	162.8	-.1	3.6	-1.1	.6	1.4
Infants' and toddlers' apparel 1/	.120	289.5	291.1	5.7	.6	1.2	.7	.6
Footwear	.622	205.2	206.1	.4	.4	.7	.7	-.3
Other apparel commodities 1/	.472	201.7	201.9	.1	.1	.5	.8	.1
Apparel services	.649	283.6	284.9	5.9	.5	.0	.2	.1
Transportation	21.364	291.1	288.6	.7	-.9	-.6	-1.7	-.2
Private transportation	20.188	287.6	285.0	.5	-.9	-.7	-1.8	-.2
New vehicles 2/	3.614	200.9	200.7	3.3	-.1	.0	1.0	.6
New cars	3.084	201.0	200.9	3.5	.0	.0	.9	.6
Used cars	4.499	309.1	309.3	10.1	.1	1.0	.7	1.0
Motor fuel	6.149	361.4	350.4	-9.1	-3.0	-3.3	-6.9	-1.7
Gasoline		361.2	350.3	-9.1	-3.0	-3.3	-6.9	-1.7
Maintenance and repair	1.632	326.6	327.4	5.2	.2	.4	.2	.0
Other private transportation 1/	4.295	261.1	260.5	1.0	-.2	.0	-.2	-.2
Other private trans. commodities 1/	.728	217.4	215.8	-1.1	-.7	.5	-.3	-.7
Other private trans. services 1/	3.567	275.2	274.8	1.5	-.1	-.1	-.1	-.1
Public transportation 1/	1.176	347.7	347.3	4.9	-.1	.5	-.6	-.1
Medical care	4.675	348.9	350.0	10.3	.3	.9	.9	.4
Medical care commodities	.771	217.2	219.0	9.2	.8	.9	.3	.7
Medical care services	3.904	378.2	379.0	10.5	.2	.9	1.0	.3
Professional services 1/	1.885	315.7	316.9	7.1	.4	1.0	1.0	.4
Other medical care services	2.019	457.0	457.1	13.8	.0	.8	1.1	.2
Entertainment	3.444	239.5	240.8	4.9	.5	.4	.3	.3
Entertainment commodities	2.171	238.8	240.8	4.3	.8	.1	.3	.4
Entertainment services 1/	1.273	241.8	242.1	6.0	.1	1.0	.4	.1
Other goods and services	4.289	279.6	280.0	12.3	.1	1.3	.8	.3
Tobacco products 1/	1.456	282.2	282.7	21.2	.2	2.9	.8	.2
Personal care 1/	1.655	255.5	255.8	5.8	.1	.6	.6	.1
Toilet goods and personal care appliances 1/	.816	256.8	257.8	6.7	.4	.7	.8	.4
Personal care services 1/	.839	254.7	254.3	4.8	-.2	.4	.5	-.2
Personal and educational expenses	1.179	325.0	325.7	11.7	.2	.6	.8	.9
School books and supplies	.171	296.0	296.3	10.8	.1	.5	1.4	.8
Personal and educational services	1.008	332.5	333.2	11.8	.2	.6	.7	.9
				Commodity and service group				
All items	100.000	292.3	293.0	3.7	0.2	0.0	-0.2	0.3
Commodities	59.566	267.8	268.4	3.6	.2	.0	-.5	.4
Food and beverages	19.012	282.1	283.5	2.8	.5	.1	.0	.5
Commodities less food and beverages	40.555	257.1	257.4	4.0	.1	-.1	-.8	.3
Nondurables less food and beverages 1/	18.286	266.9	265.0	-.1	-.7	-1.0	-.9	-.7
Apparel commodities	3.881	179.7	182.9	1.2	1.8	.1	.4	.5
Nondurables less food, beverages, and apparel 1/	14.404	314.4	310.1	-.4	-1.4	-.8	-1.2	-1.4
Durables	22.269	247.8	249.7	7.4	.8	.6	.7	1.4
Services	40.434	337.8	338.5	3.9	.2	.0	.3	.2
Rent, residential 1/	4.946	232.5	233.1	6.4	.3	.6	.3	.3
Household services less rent	21.440	402.9	404.2	1.9	.3	-.2	.1	.2
Transportation services	6.375	296.9	296.7	3.1	-.1	.1	-.1	-.1
Medical care services	3.904	378.2	379.0	10.5	.2	.9	1.0	.3
Other services	3.769	270.2	270.6	7.2	.1	.5	.5	.3
Special indexes:								
All items less food	82.036	291.9	292.4	3.9	.2	.0	-.3	.3
All items less shelter	71.340	278.3	278.5	3.6	.1	.1	-.4	.1
All items less mortgage interest costs	90.633	279.0	279.7	4.6	.3	.3	-.3	.1
All items less home purchase and mortgage interest costs	81.919	277.6	277.9	3.9	.1	.1	-.4	.1
All items less medical care	95.325	289.3	290.0	3.4	.2	.0	-.3	.3
Commodities less food	41.602	255.0	255.4	4.0	.2	-.1	-.7	.3
Nondurables less food 1/	19.334	262.2	260.6	.2	-.6	-.9	-.8	-.6
Nondurables less food and apparel 1/	15.452	301.1	297.4	-.1	-1.2	-.7	-1.1	-1.2
Nondurables	37.297	275.6	275.3	1.4	-.1	-.8	-.9	.0
Services less rent	35.488	357.9	358.7	3.6	.2	-.1	.2	.2
Services less medical care 1/	36.530	331.2	332.0	3.2	.2	.1	.2	.2
Energy 3/	11.520	406.9	399.8	-2.0	-1.7	-2.4	-4.1	-1.2
All items less energy	88.480	283.0	284.4	4.4	.5	.1	.3	.5
All items less food and energy	70.516	280.2	281.6	5.0	.5	.2	.4	.5
Commodities less food and energy	34.108	237.9	240.0	6.9	.9	.5	.5	.8
Energy commodities	7.494	401.9	388.7	-8.5	-3.3	-6.1	-6.5	-2.2
Services less energy	36.408	331.4	331.9	3.1	.2	.0	.2	.2
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.342	$.341	-3.7	-.3	.0	.0	-.3
1957-59=$1.00 1/	-	.294	.293	-	-	-	-	-

1/ Not seasonally adjusted.
2/ New series; includes direct pricing of new trucks and motorcycles as of September 1982.
3/ Excludes motor oil, coolant, and other products as of January 1983.
NOTE: Index applies to a month as a whole, not to any specific date.

Table 5. Consumer Price Index for urban wage earners and clerical workers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
	Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	3 months ending in				6 months ending in	
					June 1982	Sept. 1982	Dec. 1982	Mar. 1983	Sept. 1982	Mar. 1983
					Expenditure category					
All items	-	-	-	-	10.1	4.2	0.7	0.3	7.1	0.5
Food and beverages	281.1	281.4	281.4	282.9	6.4	1.1	.9	2.6	3.7	1.7
Food	288.4	288.6	288.5	290.0	6.8	.8	.7	2.2	3.8	1.5
Food at home	278.8	278.7	278.7	280.4	7.8	-1.6	-1.1	2.3	3.0	.6
Cereals and bakery products 1/	284.9	286.4	287.4	288.5	3.3	1.6	2.1	5.2	2.4	3.6
Meats, poultry, fish, and eggs	261.7	262.1	262.6	263.0	18.0	.2	-6.3	2.0	8.7	-2.2
Dairy products 1/	247.1	248.9	249.1	248.9	-.3	1.0	1.3	2.9	.3	2.1
Fruits and vegetables	282.8	275.1	272.3	281.2	7.6	-15.5	3.0	-2.2	-4.7	.4
Sugar and sweets 1/	369.1	371.4	370.6	372.5	1.7	4.9	-2.3	3.7	3.3	.6
Fats and oils 1/	258.7	259.3	258.1	258.4	1.5	-3.6	.6	-.5	-1.1	.1
Nonalcoholic beverages	429.0	432.4	431.3	432.3	2.1	.1	2.1	3.1	1.1	2.6
Other prepared foods 1/	272.4	274.2	276.8	277.5	2.1	3.3	1.0	7.7	2.7	4.3
Food away from home	317.0	318.3	318.1	319.1	4.7	6.5	4.8	2.7	5.6	3.7
Alcoholic beverages	214.3	214.6	216.0	217.1	2.3	4.1	4.4	5.3	3.2	4.9
Housing	317.8	317.7	318.0	319.3	14.4	3.7	-2.2	1.9	8.9	-.2
Shelter	338.2	338.0	338.9	341.1	18.2	2.5	-7.0	3.5	10.0	-1.9
Rent, residential 1/	230.3	231.7	232.5	233.1	5.6	8.0	7.1	5.0	6.8	6.0
Other rental costs	337.0	338.0	338.0	337.3	11.3	17.5	-2.7	.4	14.3	-1.2
Homeownership	376.9	376.0	377.0	379.9	21.1	1.0	-9.9	3.2	10.6	-3.5
Home purchase 1/	290.9	291.9	293.7	298.9	28.5	2.8	6.4	11.5	15.0	8.9
Financing, taxes, and insurance 1/	495.7	490.2	491.3	491.8	19.1	-.6	-22.8	-3.1	8.8	-13.5
Maintenance and repairs	335.3	338.5	337.0	337.8	9.9	2.8	1.6	3.0	6.3	2.3
Maintenance and repair services	374.1	378.4	375.6	377.0	11.4	4.0	1.9	3.1	7.6	2.5
Maintenance and repair commodities 1/	252.3	253.6	256.5	254.2	5.8	-.5	.8	3.0	2.6	1.9
Fuel and other utilities	370.9	370.2	368.3	366.6	9.7	10.7	14.4	-4.6	10.2	4.5
Fuels	472.1	469.1	465.3	461.9	8.9	12.1	17.3	-8.4	10.5	3.7
Fuel oil, coal, and bottled gas	698.7	672.1	641.9	613.8	3.2	13.5	12.5	-40.4	8.3	-18.2
Gas (piped) and electricity	418.4	419.9	421.4	423.0	10.8	11.7	19.0	4.5	11.3	11.5
Other utilities and public services 1/	207.3	210.9	211.6	212.2	12.2	6.5	6.0	9.8	9.3	7.9
Household furnishings and operation	232.7	233.5	233.6	234.2	4.1	2.3	2.8	2.6	3.2	2.7
Housefurnishings	193.6	194.2	194.2	194.9	4.3	1.0	2.3	2.7	2.6	2.5
Housekeeping supplies	289.4	291.3	291.0	291.3	4.4	5.2	4.5	2.7	4.8	3.8
Housekeeping services 1/	314.5	315.0	315.6	316.1	3.6	2.3	2.3	2.1	2.9	2.8
Apparel and upkeep	192.2	192.2	192.9	193.8	.2	3.2	.4	3.4	1.7	1.9
Apparel commodities	181.1	181.2	181.9	182.8	-.9	2.5	-.7	3.8	.8	1.5
Men's and boys' apparel	186.5	187.6	187.2	187.4	3.6	3.8	2.6	1.9	3.7	2.3
Women's and girls' apparel	160.8	159.1	160.1	162.3	-4.4	1.5	-1.2	3.8	-1.5	1.2
Infants' and toddlers' apparel 1/	284.2	287.5	289.5	291.1	4.1	15.0	-5.3	10.1	9.4	2.1
Footwear	204.2	205.6	207.1	206.5	1.6	-1.7	-2.7	4.6	-.1	.9
Other apparel commodities 1/	199.2	200.1	201.7	201.9	-5.3	4.7	-3.9	5.5	-.4	.7
Apparel services	282.7	282.8	283.3	283.5	7.2	8.2	7.2	1.1	7.7	4.1
Transportation	297.2	295.4	290.3	289.7	8.0	5.7	.3	-9.7	6.9	-4.9
Private transportation	294.2	292.0	286.7	286.2	8.1	5.5	.1	-10.4	6.8	-5.3
New vehicles 2/	199.0	199.0	200.9	202.1	2.9	5.0	-.8	6.4	3.9	2.7
New cars	199.2	199.2	201.0	202.3	2.9	5.0	-.4	6.4	3.9	2.9
Used cars	307.9	311.1	313.2	316.3	16.9	4.4	8.5	11.4	10.4	9.9
Motor fuel	393.2	380.4	354.0	348.0	6.2	9.3	-4.3	-38.6	7.7	-23.4
Gasoline	392.9	380.1	353.9	347.9	6.3	9.4	-4.6	-38.5	7.8	-23.4
Maintenance and repair	324.3	325.5	326.3	326.4	8.9	6.6	3.0	2.6	7.8	2.8
Other private transportation 1/	261.6	261.5	261.1	260.5	6.4	1.8	-2.1	-1.7	4.1	-1.9
Other private trans. commodities 1/	216.9	218.0	217.4	215.8	3.3	-6.6	1.1	-2.0	-1.7	-.5
Other private trans. services 1/	276.0	275.6	275.2	274.6	7.1	3.5	-2.7	-1.7	5.3	-2.2
Public transportation 1/	348.0	349.8	347.7	347.3	8.6	9.2	3.0	-.8	8.9	1.1
Medical care	341.8	344.9	348.1	349.4	11.7	11.0	9.4	9.2	11.4	9.3
Medical care commodities	216.9	216.8	217.4	219.0	10.1	10.1	8.6	7.9	10.1	8.2
Medical care services	369.8	373.2	377.1	378.2	12.0	11.2	9.6	9.4	11.6	9.5
Professional services 1/	309.5	312.7	315.7	316.9	7.5	6.5	4.5	9.9	7.0	7.2
Other medical care services	446.1	449.5	454.3	455.3	16.7	15.9	14.7	8.5	16.3	11.5
Entertainment	237.5	238.5	239.3	240.0	5.5	5.3	4.7	4.3	5.4	4.5
Entertainment commodities	237.6	237.9	238.6	239.6	6.2	3.3	4.7	3.4	4.8	4.0
Entertainment services 1/	238.5	240.8	241.8	242.1	4.5	8.8	4.7	6.2	6.6	5.4
Other goods and services	273.5	277.1	279.2	280.1	8.8	10.4	20.2	10.0	9.6	15.0
Tobacco products 1/	271.9	279.9	282.2	282.7	6.7	16.3	49.0	16.9	11.4	32.0
Personal care 1/	252.5	253.9	255.5	255.8	7.1	5.5	5.2	5.3	6.3	5.3
Toilet goods and personal care appliances 1/	253.1	254.8	256.8	257.8	9.4	4.9	5.1	7.6	7.2	6.3
Personal care services 1/	252.4	253.4	254.7	254.3	4.7	5.8	5.7	3.0	5.3	4.4
Personal and educational expenses	318.7	320.7	323.2	326.1	13.7	11.5	12.0	9.6	12.6	10.8
School books and supplies	286.1	287.5	291.6	293.9	13.1	12.1	6.4	11.4	12.6	8.8
Personal and educational services	326.8	328.9	331.2	334.2	13.8	11.3	13.0	9.4	12.6	11.1
					Commodity and service group					
All items	-	-	-	-	10.1	4.2	0.7	0.3	7.1	0.5
Commodities	268.9	268.8	267.4	268.4	9.1	3.5	3.2	-.7	6.3	1.2
Food and beverages	281.1	281.4	281.4	282.9	6.4	1.1	.9	2.6	3.7	1.7
Commodities less food and beverages	259.1	258.9	256.8	257.6	10.2	4.8	4.1	-2.3	7.5	.9
Nondurables less food and beverages 1/	271.9	269.3	266.9	265.0	4.4	5.5	.1	-9.8	5.0	-4.9
Apparel commodities	181.1	181.2	181.9	182.8	-.9	2.5	-.7	3.8	.8	1.5
Nondurables less food, beverages, and apparel 1/	320.8	318.3	314.4	310.1	6.6	4.2	1.[illegible]	-12.7	5.4	-6.0
Durables	246.0	247.5	249.3	252.7	12.1	1.7	5.2	11.3	6.7	8.2
Services	337.3	337.4	338.3	338.9	11.6	5.4	-3.6	1.9	8.4	-.6
Rent, residential 1/	230.3	231.7	232.5	233.1	5.6	8.0	7.1	5.0	6.8	6.0
Household services less rent	404.7	403.8	404.4	405.2	15.0	3.1	-9.5	.5	8.9	-4.6
Transportation services	296.8	297.2	296.8	296.5	7.9	5.3	-.3	-.4	6.6	-.3
Medical care services	369.8	373.2	377.1	378.2	12.0	11.2	9.6	9.4	11.6	9.5
Other services	267.2	268.6	269.9	270.6	7.3	8.7	7.4	5.2	8.0	6.3
Special indexes:										
All items less food	292.6	292.7	291.9	292.7	10.9	5.1	.5	.1	8.0	.3
All items less shelter	279.2	279.4	278.2	278.6	7.0	5.1	3.8	-.9	6.0	1.5
All items less mortgage interest costs	279.2	280.0	279.3	279.7	8.6	4.6	4.6	.7	6.6	2.6
All items less home purchase and mortgage interest costs	278.4	278.8	277.6	277.9	7.2	4.9	4.4	-.7	6.1	1.8
All items less medical care	290.0	290.0	289.2	290.1	10.1	4.0	.3	.1	7.0	.2
Commodities less food	257.0	256.7	254.8	255.6	10.1	4.7	4.2	-2.2	7.4	.9
Nondurables less food 1/	266.6	264.2	262.2	260.6	4.4	5.4	.2	-8.7	4.9	-4.6
Nondurables less food and apparel 1/	306.5	304.4	301.1	297.4	6.3	4.3	1.2	-11.4	5.3	-5.3
Nondurables	279.1	277.0	274.5	274.5	6.2	3.2	3.1	-6.4	4.7	-1.8
Services less rent	357.9	357.7	358.5	359.1	12.7	4.9	-4.2	1.3	8.7	-1.5
Services less medical care 1/	330.4	330.7	331.2	332.0	13.2	5.0	-6.3	2.0	9.0	-2.3
Energy 3/	431.8	421.4	404.3	399.4	6.4	7.9	9.0	-26.8	7.2	-18.7
All items less energy	282.0	282.4	283.2	284.6	8.8	4.7	.1	3.7	6.7	1.9
All items less food and energy	279.0	279.6	280.6	281.9	9.7	4.9	.0	4.2	7.3	2.1
Commodities less food and energy	236.3	237.5	238.7	240.7	9.7	3.2	6.0	7.7	6.4	6.8
Energy commodities	438.9	420.9	393.5	385.0	3.2	6.2	5.5	-40.8	4.7	-21.8
Services less energy	330.5	330.5	331.3	331.8	11.8	4.5	-5.0	1.6	8.1	-1.8

1/ Not seasonally adjusted.
2/ New series; includes direct pricing of new trucks and motorcycles as of September 1982.
3/ Excludes motor oil, coolant, and other products as of January 1983.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes				Percent change to Mar. 1983 from-			Percent change to Feb. 1983 from-		
			Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	Mar. 1982	Jan. 1983	Feb. 1983	Feb. 1982	Dec. 1982	Jan. 1983
U.S. city average..................			292.0	292.1	292.3	293.0	3.7	0.3	0.2	3.3	0.1	0.1
Chicago, Ill.-Northwestern Ind.....	M		291.8	292.8	291.4	291.4	5.4	-.5	.0	5.8	-.1	-.5
Detroit, Mich......................	M		288.7	288.0	287.1	289.8	5.3	.6	.9	4.5	-.6	-.3
L.A.-Long Beach, Anaheim, Calif....	M		288.0	288.0	290.1	289.6	-.2	.6	-.2	.3	.7	.7
N.Y., N.Y.-Northeastern N.J........	M		280.3	280.8	279.6	280.3	5.4	-.2	.3	4.4	-.2	-.4
Philadelphia, Pa.-N.J..............	M		281.0	282.5	283.3	285.5	4.1	1.1	.8	3.0	.8	.3
Anchorage, Alaska..................	1	10/67	-	250.6	-	253.9	-.2	1.3	-	-	-	-
Baltimore, Md......................	1		-	289.7	-	295.0	4.5	1.8	-	-	-	-
Boston, Mass.......................	1		-	284.5	-	284.3	5.4	-.1	-	-	-	-
Cincinnati, Ohio-Ky.-Ind...........	1		-	305.2	-	307.6	7.1	.8	-	-	-	-
Denver-Boulder, Colo...............	1		-	323.9	-	326.8	3.7	.9	-	-	-	-
Miami, Fla.........................	1	11/77	-	159.2	-	159.7	2.1	.3	-	-	-	-
Milwaukee, Wis.....................	1		-	303.5	-	311.0	6.3	2.5	-	-	-	-
Northeast Pennsylvania.............	1		-	282.6	-	280.6	4.5	-.7	-	-	-	-
Portland, Oreg.-Wash...............	1		-	281.7	-	283.0	-.3	.5	-	-	-	-
St. Louis, Mo.-Ill.................	1		-	285.3	-	293.2	5.0	2.8	-	-	-	-
San Diego, Calif...................	1		-	313.6	-	315.4	.5	.6	-	-	-	-
Seattle-Everett, Wash..............	1		-	291.4	-	290.8	.4	-.2	-	-	-	-
Washington, D.C.-Md.-Va............	1		-	292.9	-	294.3	3.7	.5	-	-	-	-
Atlanta, Ga........................	2		297.8	-	297.0	-	-	-	-	5.1	-.3	-
Buffalo, N.Y.......................	2		275.0	-	276.5	-	-	-	-	7.2	.5	-
Cleveland, Ohio....................	2		315.0	-	313.7	-	-	-	-	10.1	-.4	-
Dallas-Fort Worth, Tex.............	2		299.4	-	298.1	-	-	-	-	2.9	-.4	-
Honolulu, Hawaii...................	2		271.0	-	274.8	-	-	-	-	4.5	1.4	-
Houston, Tex.	2		316.1	-	317.4	-	-	-	-	5.7	.4	-
Kansas City, Mo.-Kans..............	2		288.6	-	289.0	-	-	-	-	5.4	.1	-
Minneapolis-St.Paul, Minn.-Wis.....	2		306.1	-	309.0	-	-	-	-	1.2	.9	-
Pittsburgh, Pa.....................	2		301.7	-	296.6	-	-	-	-	5.9	-1.7	-
San Francisco-Oakland, Calif.......	2		293.6	-	293.9	-	-	-	-	-.3	.1	-
Region 3/												
Northeast..........................	2	12/77	153.3	-	153.3	-	-	-	-	4.1	.0	-
North Central......................	2	12/77	159.3	-	159.5	-	-	-	-	4.9	.1	-
South..............................	2	12/77	158.7	-	159.0	-	-	-	-	3.2	.2	-
West...............................	2	12/77	156.6	-	156.6	-	-	-	-	.0	.0	-
Population size class 3/												
A-1................................	2	12/77	153.7	-	153.8	-	-	-	-	3.6	.1	-
A-2................................	2	12/77	159.2	-	159.6	-	-	-	-	3.8	.3	-
B..................................	2	12/77	158.5	-	158.6	-	-	-	-	2.6	.1	-
C..................................	2	12/77	156.8	-	156.5	-	-	-	-	2.7	-.2	-
D..................................	2	12/77	158.0	-	158.6	-	-	-	-	4.2	.4	-
Region/population size class cross classification 3/												
Northeast/A........................	2	12/77	150.4	-	150.2	-	-	-	-	4.5	-.1	-
North Central/A.	2	12/77	161.1	-	161.3	-	-	-	-	5.4	.1	-
South/A............................	2	12/77	158.3	-	158.8	-	-	-	-	3.8	.3	-
West/A.............................	2	12/77	157.2	-	158.1	-	-	-	-	-.1	.6	-
Northeast/B........................	2	12/77	156.8	-	157.3	-	-	-	-	4.4	.3	-
North Central/B....................	2	12/77	160.2	-	160.1	-	-	-	-	4.7	-.1	-
South/B............................	2	12/77	158.8	-	159.2	-	-	-	-	1.9	.3	-
West/B.............................	2	12/77	158.1	-	157.6	-	-	-	-	.3	-.3	-
Northeast/C........................	2	12/77	161.1	-	161.5	-	-	-	-	2.6	.2	-
North Central/C....................	2	12/77	154.9	-	154.7	-	-	-	-	4.5	-.1	-
South/C............................	2	12/77	158.6	-	158.3	-	-	-	-	2.9	-.2	-
West/C.............................	2	12/77	151.1	-	149.5	-	-	-	-	-1.2	-1.1	-
Northeast/D........................	2	12/77	156.7	-	156.9	-	-	-	-	3.4	.1	-
North Central/D....................	2	12/77	157.5	-	158.7	-	-	-	-	4.5	.8	-
South/D............................	2	12/77	159.2	-	160.0	-	-	-	-	5.1	.5	-
West/D.............................	2	12/77	158.0	-	156.7	-	-	-	-	2.3	-.8	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Local area CPI indexes are by-products of the national CPI program. Because each local index is a small subset of the national index, it has a smaller sample size and is, therefore, subject to substantially more sampling and other measurement error than the national index. As a result, local area indexes show greater volatility than the national index, although their long-term trends are quite similar. Therefore, the Bureau of Labor Statistics strongly urges users to consider adopting the national average CPI for use in escalator clauses.

CPI-U (Old Series)

ABLE 7. Consumer Price Index for all urban consumers (Old Series): U.S. city average, by expenditure category and commodity and
rvice group, 1967=100

Group	Relative importance, December 1982	Unadjusted indexes Feb. 1983	Unadjusted indexes Mar. 1983	Unadjusted percent change to Mar. 1983 from— Mar. 1982	Unadjusted percent change to Mar. 1983 from— Feb. 1983	Seasonally adjusted percent change from— Dec. to Jan.	Seasonally adjusted percent change from— Jan. to Feb.	Seasonally adjusted percent change from— Feb. to Mar.
				Expenditure category				
All items	100.006	292.8	293.6	3.7	0.3	0.0	-0.1	0.3
All items(1957-59=100)	-	340.6	341.5	-	-	-	-	-
Food and beverages	17.418	281.6	283.2	2.8	.6	.1	.0	6
Food	16.458	289.0	290.5	2.7	.5	.1	.0	.6
Food at home	11.167	280.3	281.9	1.7	.6	.0	.0	.9
Cereals and bakery products 1/	1.476	288.7	289.8	3.0	.4	.5	.3	.4
Meats, poultry, fish, and eggs	3.659	264.0	264.2	2.8	.1	.3	.1	.2
Dairy products 1/	1.475	249.7	249.6	1.3	.0	.7	.1	.0
Fruits and vegetables	1.614	278.1	286.9	-2.1	3.2	-2.4	-1.0	4.4
Sugar and sweets 1/	.426	370.7	372.8	2.0	.6	.6	-.2	.6
Fats and oils 1/	.302	258.0	258.4	-.5	.2	.3	-.5	.2
Nonalcoholic beverages	1.223	432.2	432.7	1.9	.1	.7	-.3	.3
Other prepared foods 1/	.992	275.1	276.0	3.6	.3	.7	.9	.3
Food away from home	5.291	315.2	316.5	4.7	.4	.3	.0	.2
Alcoholic beverages	.960	213.3	215.1	4.1	.8	.1	.5	.7
Housing	45.948	317.2	318.8	3.9	.5	.0	.1	.4
Shelter	31.472	336.8	339.2	3.5	.7	.0	.3	.7
Rent, residential 1/	5.232	233.1	233.6	6.4	.2	.6	.4	.2
Other rental costs	.784	340.8	340.6	6.4	-.1	.3	-.1	-.1
Homeownership	25.455	373.1	376.2	2.9	.8	-.2	.2	.8
Home purchase 1/	9.914	293.8	299.1	11.1	1.8	.3	.7	1.8
Financing, taxes, and insurance 1/	11.970	482.0	482.6	-3.7	.1	-1.1	.2	.1
Maintenance and repairs	3.570	340.2	341.5	4.4	.4	1.2	-.7	.1
Maintenance and repair services	2.794	373.9	375.9	5.1	.5	1.5	-.9	.1
Maintenance and repair commodities 1/	.777	260.5	260.2	2.0	-.1	.5	.3	-.1
Fuel and other utilities	7.270	364.6	363.8	7.2	-.2	-.2	-.5	-.5
Fuels	5.393	461.5	459.7	6.8	-.4	-.6	-.8	-.8
Fuel oil, coal, and bottled gas	1.347	654.0	625.3	-5.8	-4.4	-4.0	-4.3	-4.5
Gas (piped) and electricity	4.046	414.5	418.0	11.2	.8	.5	.2	.3
Other utilities and public services 1/	1.878	210.9	211.4	8.4	.2	1.7	.4	.2
Household furnishings and operation	7.206	236.6	237.6	2.6	.4	.1	.0	.2
Housefurnishings	3.809	195.9	197.0	2.2	.6	.0	-.1	.2
Housekeeping supplies	1.463	294.8	295.4	3.9	.2	.5	-.2	.2
Housekeeping services 1/	1.934	315.9	316.4	2.1	.2	.1	.2	.2
Apparel and upkeep	4.517	192.0	194.5	1.8	1.3	.3	.5	-.1
Apparel commodities	3.838	180.2	182.8	1.1	1.4	.3	.6	-.1
Men's and boys' apparel	1.244	184.4	186.7	2.8	1.2	.8	-.1	.1
Women's and girls' apparel	1.381	155.7	160.0	-.2	2.8	-.7	1.1	-.3
Infants' and toddlers' apparel 1/	.102	278.8	280.1	5.8	.5	1.5	.6	.5
Footwear	.588	205.6	206.6	.8	.5	.8	.7	-.4
Other apparel commodities 1/	.522	213.4	213.4	.3	.0	.7	.9	.0
Apparel services	.679	285.4	286.7	5.7	.5	.1	.1	.4
Transportation	18.912	289.9	287.4	.8	-.9	-.6	-1.6	.0
Private transportation	17.575	285.2	282.7	.5	-.9	-.8	-1.7	.0
New vehicles 2/	3.416	201.2	201.1	3.4	.0	.1	.9	.6
New cars	3.043	201.3	201.2	3.5	.0	.1	.9	.7
Used cars	3.520	309.1	309.3	10.1	.1	.9	.8	.9
Motor fuel	5.373	359.7	348.8	-9.2	-3.0	-3.3	-6.7	-1.0
Gasoline		359.4	348.6	-9.2	-3.0	-3.3	-6.7	-1.0
Maintenance and repair	1.482	325.9	326.6	5.3	.2	.4	.2	.1
Other private transportation 1/	3.784	259.7	259.2	1.8	-.2	.1	-.1	-.2
Other private trans. commodities 1/	.647	215.0	213.3	-1.1	-.8	.6	-.3	-.8
Other private trans. services 1/	3.137	274.1	273.9	2.5	-.1	.0	.0	-.1
Public transportation 1/	1.337	355.2	354.5	5.3	-.2	.6	-.7	-.2
Medical care	5.203	351.3	352.3	10.5	.3	.8	.8	.5
Medical care commodities	.847	216.7	218.6	9.3	.9	.7	.3	1.0
Medical care services	4.356	381.5	382.2	10.8	.2	.9	1.0	.4
Professional services 1/	1.972	315.4	316.7	7.1	.4	1.0	.9	.4
Other medical care services	2.385	461.3	461.4	14.0	.0	.6	1.0	.3
Entertainment	3.651	243.1	244.6	5.1	.6	.5	.4	.3
Entertainment commodities	2.157	244.5	246.8	4.3	.9	.2	.3	.4
Entertainment services 1/	1.494	241.6	241.9	6.2	.1	1.0	.5	.1
Other goods and services	4.351	281.6	281.9	11.8	.1	1.1	.8	.3
Tobacco products 1/	1.204	282.8	283.3	21.0	.2	2.9	.9	.2
Personal care 1/	1.611	257.8	257.8	5.8	.0	.5	.7	.0
Toilet goods and personal care appliances 1/	.737	256.0	257.1	6.9	.4	.7	.8	.4
Personal care services 1/	.874	260.4	259.5	4.9	-.3	.4	.5	-.3
Personal and educational expenses	1.536	323.3	323.9	11.5	.2	.5	.9	.8
School books and supplies	.191	292.0	292.3	11.0	.1	.4	1.4	.9
Personal and educational services	1.345	331.0	331.5	11.6	.2	.5	.9	.8
				Commodity and service group				
All items	100.000	292.8	293.6	3.7	0.3	0.0	-0.1	0.3
Commodities	56.658	267.4	268.2	3.6	.3	-.1	-.4	.4
Food and beverages	17.418	281.6	283.2	2.8	.6	.1	.0	.6
Commodities less food and beverages	39.240	256.6	257.2	4.1	.2	-.2	-.6	.4
Nondurables less food and beverages 1/	17.168	265.2	263.4	.0	-.7	-1.0	-.8	-.7
Apparel commodities	3.838	180.2	182.8	1.1	1.4	.3	.6	-.1
Nondurables less food, beverages, and apparel 1/	13.330	313.4	309.3	-.3	-1.3	-.8	-1.2	-1.3
Durables	22.072	248.4	250.6	7.3	.9	.6	.7	1.5
Services	43.342	337.2	338.0	3.8	.2	.1	.2	.2
Rent, residential 1/	5.232	233.1	233.6	6.4	.2	.6	.4	.2
Household services less rent	23.405	397.0	398.2	1.5	.3	-.2	.1	.2
Transportation services	5.956	299.9	299.8	3.8	.0	.2	-.1	.0
Medical care services	4.356	381.5	382.2	10.8	.2	.9	1.0	.4
Other services	4.392	272.6	272.9	7.4	.1	.4	.6	.3
Special indexes:								
All items less food	83.542	292.2	292.8	3.9	.2	.1	-.2	.3
All items less shelter	68.528	278.5	278.7	3.8	.1	.0	-.4	.2
All items less mortgage interest costs	90.209	279.3	280.1	4.8	.3	.2	-.1	.3
All items less home purchase and mortgage interest costs	80.294	277.8	278.0	4.1	.1	.2	-.4	.2
All items less medical care	94.797	289.6	290.4	3.4	.3	.0	-.2	.3
Commodities less food	40.200	254.5	255.1	4.0	.2	-.2	-.6	.4
Nondurables less food 1/	18.127	260.5	258.9	.2	-.6	-.9	-.7	-.6
Nondurables less food and apparel 1/	14.289	299.9	296.5	.0	-1.1	-.7	-1.1	-1.1
Nondurables	34.586	274.6	274.4	1.4	-.1	-.7	-.9	.0
Services less rent	38.110	357.0	357.8	3.5	.2	.0	.2	.2
Services less medical care 1/	38.986	330.3	331.1	3.1	.2	.2	.2	.2
Energy 3/	10.766	406.7	399.9	-1.5	-1.7	-2.5	-3.7	-.9
All items less energy	89.234	284.1	285.5	4.3	.5	.2	.3	.5
All items less food and energy	72.775	281.2	282.6	4.7	.5	.2	.4	.5
Commodities less food and energy	33.479	238.4	240.5	6.7	.9	.5	.5	.8
Energy commodities	6.721	401.6	388.3	-8.5	-3.3	-4.4	-6.2	-1.7
Services less energy	39.296	331.0	331.5	3.1	.2	.1	.2	.2
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.342	$.341	-3.4	-.3	.0	.0	-.3
1957-59=$1.00 1/	-	.294	.293	-	-	-	-	-

1/ Not seasonally adjusted.
2/ New series; includes direct pricing of new trucks and motorcycles as of September 1982.
3/ Excludes motor oil, coolant, and other products as of January 1983.
NOTE: Index applies to a month as a whole, not to any specific date.

CPI-U (Old Series)

TABLE 8. Consumer Price Index for all urban consumers (Old Series): Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes				Percent change to Mar. 1983 from-			Percent change to Feb. 1983 from-		
			Dec. 1982	Jan. 1983	Feb. 1983	Mar. 1983	Mar. 1982	Jan. 1983	Feb. 1983	Feb. 1982	Dec. 1982	Jan. 1983
U.S. city average			292.4	292.6	292.8	293.6	3.7	0.3	0.3	3.3	0.1	0.1
Chicago, Ill.-Northwestern Ind.	M		293.1	294.3	292.9	293.1	6.0	-.4	.1	6.5	-.1	-.5
Detroit, Mich.	M		292.6	291.9	290.9	293.5	5.5	.5	.9	4.7	-.6	-.3
L.A.-Long Beach, Anaheim, Calif.	M		285.3	285.5	287.5	287.1	.2	.6	-.1	.7	.8	.7
N.Y., N.Y.-Northeastern N.J.	M		281.8	282.5	281.3	282.2	5.5	-.1	.3	4.6	-.2	-.4
Philadelphia, Pa.-N.J.	M		281.6	283.2	284.4	286.5	4.3	1.2	.7	3.2	1.0	.4
Anchorage, Alaska	1	10/67	-	251.9	-	255.7	-1.7	1.5	-	-	-	-
Baltimore, Md.	1		-	289.8	-	295.8	4.9	2.1	-	-	-	-
Boston, Mass.	1		-	285.4	-	284.8	5.6	-.2	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	302.7	-	304.9	7.0	.7	-	-	-	-
Denver-Boulder, Colo.	1		-	318.7	-	321.6	4.0	.9	-	-	-	-
Miami, Fla.	1	11/77	-	157.7	-	158.3	2.1	.4	-	-	-	-
Milwaukee, Wis.	1		-	300.4	-	306.8	6.0	2.1	-	-	-	-
Northeast Pennsylvania	1		-	281.2	-	279.2	4.5	-.7	-	-	-	-
Portland, Oreg.-Wash.	1		-	283.5	-	285.5	-.4	.7	-	-	-	-
St. Louis, Mo.-Ill.	1		-	287.3	-	295.1	5.1	2.7	-	-	-	-
San Diego, Calif.	1		-	316.1	-	317.4	-.5	.4	-	-	-	-
Seattle-Everett, Wash.	1		-	294.9	-	294.0	.2	-.3	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	287.2	-	287.8	3.2	.2	-	-	-	-
Atlanta, Ga.	2		296.1	-	296.2	-	-	-	-	5.9	.0	-
Buffalo, N.Y.	2		277.8	-	279.7	-	-	-	-	7.6	.7	-
Cleveland, Ohio	2		317.6	-	316.1	-	-	-	-	10.6	-.5	-
Dallas-Fort Worth, Tex.	2		303.3	-	302.2	-	-	-	-	2.9	-.4	-
Honolulu, Hawaii	2		269.9	-	275.0	-	-	-	-	5.0	1.9	-
Houston, Tex.	2		318.1	-	319.9	-	-	-	-	5.2	.6	-
Kansas City, Mo.-Kans.	2		290.6	-	291.3	-	-	-	-	5.5	.2	-
Minneapolis-St.Paul, Minn.-Wis.	2		306.1	-	309.6	-	-	-	-	1.2	1.1	-
Pittsburgh, Pa.	2		302.1	-	297.0	-	-	-	-	6.6	-1.7	-
San Francisco-Oakland, Calif.	2		293.9	-	294.6	-	-	-	-	-.4	.2	-
Region 3/												
Northeast	2	12/77	153.9	-	153.9	-	-	-	-	4.3	.0	-
North Central	2	12/77	159.7	-	160.0	-	-	-	-	5.2	.2	-
South	2	12/77	158.6	-	159.1	-	-	-	-	3.1	.3	-
West	2	12/77	156.2	-	156.2	-	-	-	-	.1	.0	-
Population size class 3/												
A-1	2	12/77	154.0	-	154.2	-	-	-	-	3.8	.1	-
A-2	2	12/77	159.2	-	159.8	-	-	-	-	3.6	.4	-
B	2	12/77	158.5	-	158.8	-	-	-	-	2.5	.2	-
C	2	12/77	157.3	-	157.0	-	-	-	-	2.7	-.2	-
D	2	12/77	157.7	-	158.3	-	-	-	-	4.2	.4	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	151.0	-	150.9	-	-	-	-	4.6	-.1	-
North Central/A	2	12/77	162.0	-	162.3	-	-	-	-	5.7	.2	-
South/A	2	12/77	157.5	-	158.2		-	-	-	3.7	.4	-
West/A	2	12/77	156.9	-	157.9		-	-	-	.0	.6	-
Northeast/B	2	12/77	157.1	-	157.6	-	-	-	-	4.6	.3	-
North Central/B	2	12/77	159.3	-	159.5	-	-	-	-	5.0	.1	-
South/B	2	12/77	159.3	-	159.9	-	-	-	-	1.7	.4	-
West/B	2	12/77	157.9	-	157.5	-	-	-	-	.3	-.3	-
Northeast/C	2	12/77	162.3	-	162.7	-	-	-	-	2.9	.2	-
North Central/C	2	12/77	156.2	-	156.1	-	-	-	-	4.7	-.1	-
South/C	2	12/77	158.8	-	158.7	-	-	-	-	3.1	-.1	-
West/C	2	12/77	150.1	-	148.5	-	-	-	-	-1.1	-1.1	-
Northeast/D	2	12/77	156.3	-	156.6	-	-	-	-	3.4	.2	-
North Central/D	2	12/77	156.8	-	158.1	-	-	-	-	4.7	.8	-
South/D	2	12/77	159.1	-	160.0	-	-	-	-	5.1	.6	-
West/D	2	12/77	157.8	-	156.6	-	-	-	-	2.2	-.8	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
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C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Local area CPI indexes are by-products of the national CPI program. Because each local index is a small subset of the national index, it has a smaller sample size and is, therefore, subject to substantially more sampling and other measurement error than the national index. As a result, local area indexes show greater volatility than the national index, although their long-term trends are quite similar. Therefore, the Bureau of Labor Statistics strongly urges users to consider adopting the national average CPI for use in escalator clauses.

Senator Jepsen. Thank you, Mr. Feldstein. Your last statement points out one of the great dangers and the great concerns that we all have, and that is that we do not want to reignite inflation. To sustain a sound recovery, we must have a double-barreled approach: A sound monetary policy and a sane fiscal policy.

What is the relation, Mr. Feldstein, between inflation and unemployment? Doesn't the lower inflation of the past 2 years mean that, barring unforeseen catastrophes, we can expect good news in the future as far as falling unemployment? Isn't it true that falling inflation will mean falling unemployment?

I think you've said so, but I want to make sure.

Mr. Feldstein. Let me clarify that. The general target for monetary growth last year, this year, and I expect into the future, is consistent with a rate of nominal GNP increase this year, probably somewhere in the 9- to 10-percent range. The fact that our inflation rate has come down means that more of that growth can take the form of real increases in GNP and therefore, more employment than would otherwise be true.

If we had a higher rate of inflation now, and monetary policy continued to aim for gradually decelerating growth of nominal GNP, we would have less room for real growth and therefore, we would have increasing rather than decreasing levels of unemployment.

Senator Jepsen. But you know, Mr. Feldstein, this fall in unemployment has already begun. The unemployment rate, as I indicated earlier, is down seven-tenths of a percent. Also, employment has risen by 320,000 since December. And in talking to some of the experts who watch these employment statistics, they are expecting a large rise in employment in the next couple of months.

So in addition to falling inflation, there is good news on unemployment. We have a long way to go. But I believe we have started the long journey back.

Do you believe that we have started back on a sound basis?

Mr. Feldstein. Yes; I do. When I came before this committee at the time that we submitted the economic report, I was very concerned about the state of employment and the state of aggregate demand. And a few weeks later, when we had the first indication of an upturn in employment and a decline in unemployment in January, I cautioned that those figures were full of uncertainty, that the process of seasonal adjustment at that time of the year was a very difficult one, that the increases in employment were at that time very narrow, being concentrated in retail trade and construction.

But now, since then, we have seen a much wider, much sounder expansion in employment. The level of employment in most major industries is now significantly higher than it was in December and I feel much more confident about the increase in employment than I did at that time.

Senator Jepsen. For the record, Mr. Feldstein, those who argue that low inflation causes high unemployment should remember what interest rates were in 1980. The prime was 21.5 percent and it's now 10.5 percent. Three-month Treasury bills were at 15.7 percent; they're now at 8.1 percent. And the discount rate was 13 percent; it's now 8.5 percent.

If inflation had remained high, interest rates would have remained high. The housing and auto industry would have collapsed even further and real economic growth would have crumbled. Above all, unemployment would have risen. And that's the relationship that we've rather clearly established here this morning.

I'm not perfectly happy with the way that inflation was brought down, but now that it is down, we should not follow the folly of trying to increase inflation to lower unemployment, as some would advocate. Don't you think that this would only raise interest rates and kill the recovery before we make a lasting dent in unemployment?

Mr. Feldstein. My preference is for the kind of moderate and sustainable recovery that I think we are beginning at this time. And I think that we can increase employment steadily over the years and increase the level of real income without increasing inflation. It would be a mistake to try to accelerate the rate of increase of demand, pushing up inflation along the way.

Senator Jepsen. Do you believe the Federal Reserve Board feels the same way?

Mr. Feldstein. I do.

Senator Jepsen. You do. Senator Roth.

Senator Roth. Mr. Feldstein, it seems to me that the budget resolution adopted both in the House and the Senate represent what I call an economic neutron bomb. I say it's an economic neutron bomb because what it does, it would destroy the tax cut for the middle class and those on the lower economic scale, while leaving the deficit standing.

As I understand it, it would require a tax increase of $30 billion, which everybody knows means do away with the third-year tax cut, and at the same time it would increase spending by $40 billion.

Now isn't that the same old political game that's been played in Washington up until the last 2 years—bigger Government, bigger spending, and bigger taxes? Does it make any sense right now when we see the incipient recovery taking place to revert the pattern and go back to the old practice of big government, big spending? What impact is that going to have on the economy?

Mr. Feldstein. Well, certainly, that is not the way to get out of the current recession and it will just move us further toward a situation where if we have more spending, we will have to have higher taxes without making any progress in reducing the budget deficit.

I think eliminating the third year of the tax cut at this time would raise all kinds of risks for the recovery. Although the recovery looks a lot better, as I said to the chairman, than it did a few months ago, we still have very weak consumer spending. Consumer sentiment has picked up. Consumers are saying that they are more optimistic. But they are not really coming to the market, especially for manufactured goods. Retail sales were falling month after month until March, when there was a very small increase, three-tenths of 1 percent. But they're lower now on a seasonally adjusted basis than they were at the beginning of the year.

The total increase in consumer outlays has been rather weak and has been concentrated almost completely in services over the last several months. If we want to keep this recovery going, over the next few months we will have to keep the consumer with us and to get the consumer to have the purchasing power to do that extra spending. That is what worries me about eliminating the third year of the tax cut at this time. Raising taxes in the very beginning stages of a recovery is bad economics and I think that is a view that you would not find much controversy about among economists.

I do think that getting down the size of the deficit is extremely important. If we do not get down the size of the deficit over the next 2 years and, in particular, provide confidence that the deficit in 1985 and beyond is going to shrink very substantially from the current projected levels, the interest rates will remain high and we will have a hard time sustaining the kind of recovery that we're now hoping for in consumer spending, in exports, and in investments.

Senator ROTH. But you do agree that it goes contrary, really, to all economic advice right now from liberal to conservative economists. For example, I was in a conference within the past week with Walter Heller, who is certainly a very fine, reputable, liberal economist. But he said very forthrightly, it's the wrong medicine. It's the wrong medicine.

Mr. FELDSTEIN. Eliminating the third year?

Senator ROTH. To do away with the third year.

Mr. FELDSTEIN. Absolutely. And I think that is a view—I don't know whether this committee has held hearings on that. I think it might well be worth doing because I think that you would find that that is a view which is shared by a very wide spectrum of economists. I noticed a story in the newspaper the other day quoting several economists at the Brookings Institution, saying that they think eliminating the third year would be a mistake at this time for just those reasons—that consumer spending remains fragile and that we need to provide that extra stimulus.

Senator ROTH. So that there's broad agreement from the macroeconomics point of view it makes no sense. But it's also true that it makes no sense from the standpoint of equity. Isn't it true that 2 years ago, because of the action of the House Ways and Means Committee, that the marginal rate of taxation was dropped from 70 to 55 percent in 1 year.

Mr. FELDSTEIN. That's right.

Senator ROTH. In 1 year. So that benefited the rich, the wealthy, the affluent. The fact is that the third year, as you brought out in your testimony, will be of greatest benefit to middle class and those on the lower middle class; is that correct?

Mr. FELDSTEIN. That is correct.

Senator ROTH. And I'd like to ask you this, Mr. Feldstein. Isn't it a fact that when this administration came into office, that it was going to reduce taxes on the working people. Now I agree with you that we've taken sizable steps to benefit the working people by keeping inflation down, that that means more real income for those people.

But isn't it also true that there's been no real, or very marginal tax reduction for the working people of this country?

Mr. FELDSTEIN. Well, there have been reductions now. It depends on the base you take, but there have clearly been reductions, not only relative to what otherwise would have been true, but also relative to the real taxes that they were paying in 1980 or 1981. It's not large.

Senator ROTH. Let me say I'm not only looking at the progressive income tax rate.

Mr. FELDSTEIN. Even if you include the social security tax.

Senator ROTH. The fact is that you have some large social security increases, not only having taken effect—some of those from the Carter days—but we are faced with a number of substantial increases in the future. Isn't it a fact that we really have had three tax increases in the last 2 years—the 5-cent gasoline tax. We had the $90 billion last year which increases the cost of telephone, the cost of cigarettes, all of which have an impact on the working people.

So it's my understanding that if you look at a typical median class American family of four who earned $30,000 in 1980, he was paying taxes roughly of $5,500. Today, with the third year tax coming into effect, he'd pay $6,600, taking into effect all kinds of taxes—social security, gasoline, and telephone.

But if we do away with that third year, he's going to be paying an additional $400.

The point I'm trying to make, Mr. Feldstein, is that while there is some marginal benefit, we have not yet really substantially relieved the tax burden on the working people of this country. They are slightly better off, but not much.

Mr. FELDSTEIN. I think you're right about the dollar amounts. I'm sure that that calculation has been done carefully. But it compares taxes paid in the dollars of each of those years. It compares the $5,500 in 1980 with—I can't remember the exact number. What was the number for 1984?

Senator ROTH. $6,600.

Mr. FELDSTEIN. $6,600 in 1984.

Senator ROTH. Yes.

Mr. FELDSTEIN. So that's an increase of about $1,100, or about 20 percent. But over that period, from 1980 to 1984, the Consumer Price Index rose substantially more than 20 percent. So that in real terms, if we stated it in 1980 dollars, the tax bill actually would have fallen over that period.

Senator ROTH. I would agree. It's fallen marginally. But what I'm really trying to say is—let me ask you this question. Isn't it critically important from the long-term point of view that we turn from a consuming nation to a savings nation?

Mr. FELDSTEIN. I think that is very important. I do.

Senator ROTH. Do you think we've done enough yet to build the incentives to get people to save?

Mr. FELDSTEIN. I think I'd like to see us do more of that.

Senator ROTH. That's all the questions I have, Mr. Chairman. Thank you, Mr. Feldstein.

Senator JEPSEN. Senator Proxmire.

Senator PROXMIRE. Mr. Feldstein, greetings. It's great to have you testify when the news is so good on inflation and you're testifying on the CPI. And that news certainly is good—an increase of only one-tenth of 1 percent. And in the last 3 months, the compounded annual rate of increase has been very, very low. So that's mighty good news.

I'm wondering, however, about how permanent this is. I notice you say in your prepared statement: "This is not to say that inflation is permanently under control. The maintenance of relative price stability is an ongoing task."

Doesn't it appear, Mr. Feldstein, that the best evidence suggests that inflation is likely to stay fairly moderate compared, certainly, with any recent comparison over the next couple of years?

Here you have the likelihood that unemployment will stay fairly high. I understand the projections are about 9 percent by the end of 1984. And that would tend to inhibit a sharp increase in wages, which is so important. Energy prices are likely to stay relatively modest. We're operating at less than 70 percent of capacity in our industrial operations. That's likely to stay fairly low. It may go up some, but it's unlikely to go much above 75 percent perhaps over the next year or so.

With these elements, doesn't it seem very likely that inflation will be moderate, at worst?

Mr. **Feldstein**. Yes, absolutely so. The only thing that I meant to imply by that paragraph was that if we saw a radical change in economic policy, if we saw an attempt to increase the rate of growth much more rapidly than the figures that you suggested or bring down the unemployment rate much more rapidly, we would run the risk that the inflation rate would start moving back up again.

Senator **Proxmire**. I appreciate that, but I just wondered, in view of the fact that we do have this heartbreaking unemployment level, and I'm sure that you would agree that it is much, much too high, it's hard for me to understand how policies, vigorous policies, unless they just lose all sense of proportion, would be likely to start inflation at any time over the next couple of years, particularly monetary policy, for example. It seems that since August of last year, the Federal Reserve Board has followed a much more expansive monetary policy. It would seem to me that that should continue over the next 6 or 8 months, perhaps more. I think that we can make a strong case for proposals by the Congress to try to put people to work with the jobs programs that are somewhat more vigorous than we have in place right now.

Why can't we do that and reduce unemployment in the process without having an inflation that would get out of hand?

Mr. **Feldstein**. Let me comment first on what you said about monetary policy. I think that the Federal Reserve did slightly increase its expansionary policies, but not a lot, in the middle of last year. Most of the increase was a natural consequence of the lower inflation rate, as I was saying before in answer to Senator Jepsen's question. The Fed, in maintaining roughly the same rate of growth of M_2 throughout last year, was providing more real money balances and, in that sense, easing monetary conditions, because less of it was being absorbed by inflation and therefore, more of it was there to finance real growth. That was accompanied by lower interest rates. I think that that will continue in the current year.

The question that you're really asking, though, is if we saw a more expansionary policy, what would that do to inflation? And I think if we saw a more expansionary monetary policy, it would raise the rate of growth of nominal GNP, GNP at market prices, and after a relatively short lag, maybe 6 months or 9 months, the majority of that increase would take the form of higher inflation.

Senator **Proxmire**. The only way that we could do that, it seems to me, by having a relatively sharp reduction in unemployment and an increase in economic production that would mean that we would be moving to a substantially higher level of utilization of our plant capacity, neither of which seems very likely.

Mr. FELDSTEIN. No. My sense is that it doesn't require us getting anywhere near full capacity or near the inflation threshold level of unemployment. It is that a more rapid increase in nominal GNP, in total demand at market prices, will be distributed, in part, into real increases. There will be some more real output and less unemployment. But there will also be some more increase in price, some more inflation.

I think I reflect a view which is very widely held within the profession that, in the short run, the majority of that would be on the real side, perhaps for the first 6 months or a year, but that after that, most of the increase in nominal GNP would take the form of increased inflation.

Senator PROXMIRE. Just as a matter of curiosity, would you agree with the assessment that the Federal Reserve Board in monetary policy has been principally responsible for the reduction in the inflation rate rather than anything that has been done by either the Congress or the Executive?

Mr. FELDSTEIN. Well, I don't think—I mean, I think there's—well, let me answer it in a different way.

Senator PROXMIRE. Well, let me just put this into perspective. We have a collosal deficit that we're facing.

Mr. FELDSTEIN. Yes.

Senator PROXMIRE. And nobody can very well argue that that deficit that we're facing and that we had in this past year, 1982, and we're facing in 1983 has contributed to getting prices down. If either monetary or fiscal policy has made a contribution, it must have been monetary policy; isn't that right?

Mr. FELDSTEIN. I agree. I think it is monetary policy. And the only reason I was hesitating was on the word "Federal Reserve Board," because while I believe that the Federal Reserve Board does value and take into account its independent status, it is not at all unaware of the views of Congress and the administration. And if Congress and the administration had not been supportive basically of the monetary policy pursued in the last 2 years, it would not have been possible for the Fed to pursue it.

So I agree it has been monetary policy that has been the principal reason for the lower rate of inflation. The only question is can you say that that's the Fed rather than the Fed, the administration, and the Congress? And I think that we all can share some credit, and there's a lot of credit to go around, with such a sharp turn-around in inflation.

Senator PROXMIRE. Now since July 1981, I understand that the inflation rate has declined from about 11 percent to 3 percent. How much of that would you say is a result of cyclical factors; that is, due to the fact that the economy is in a deep recession. And how much of it do you think is due to structural factors such as the oil glut and other matters that are aside and apart from the cycle?

Mr. FELDSTEIN. Well, I don't like to divide a change in inflation into cyclical and structural components. I would say that the change in demand conditions, rather than supply shocks or oil price factors as an independent thing—it's the change in demand conditions that have been principally responsible. Virtually all of the responsibility I would place on the better monetary policy and the slowdown in the growth of nominal GNP.

Senator **Proxmire**. Mr. Feldstein, Senator Roth raised a very interesting point that we're going to have to make a decision on this in the Congress in the next couple of months. It's a very difficult decision. That is, he put it in the form of raising taxes. Now it seems to me that there's a difference between raising taxes and not permitting taxes to drop at a time when you have a deep deficit.

You indicated that the deficit is a matter of very serious concern, and I think you're right. I understand that the head of the IMF has indicated that that is the most serious economic problem facing not the United States alone, but the whole world, because that deficit will mean that interest rates are likely to stay high everywhere in the world.

One way, and there are two ways of coping with that deficit, one way is not to cut taxes as sharply as we would permit them to be cut if we permitted the tax cut in July to go into effect. Another way, of course, is to hold down spending. And I would agree with you, and I think you take the position that we should do that. I would agree we should.

But isn't it also important that we take a pretty critical look at the consequences of this additional tax reduction that we're going to put into effect at a time when we face a $200 billion deficit?

Mr. **Feldstein**. I think it's a question of timing. I believe that we probably need more revenue in the years ahead, but I wouldn't want to do it in 1983. And I think, as I said before——

Senator **Proxmire**. It just keeps us from shoving, kissing off another $30 billion.

Mr. **Feldstein**. We are moving into higher brackets, though, because of bracket creep at this point.

Senator **Proxmire**. But bracket creep is a lot less with a 3-percent inflation rate.

Mr. **Feldstein**. It's a lot less, but still, we've had a year's worth of it. I will sleep much more comfortably if I know that the tax cut takes place in July, and that consumers are reassured that they can go out and do that spending. I don't remember if you were here when I was commenting on the weakness of consumer outlays in the last few months, the fact that retail sales, especially for large consumer items like automobiles and consumer durables, have continued to be very, very weak.

I'd like to have that extra injection of funds at this time. But I think that that is fully consistent with raising taxes a couple of years from now when the recovery is well underway. From the point of view of the very high interest rates that you talked about, I think it is important that those rates be brought down. But I think the critical thing for doing that is the market's expectations that the budget deficits in the more distant future, starting a couple of years from now, but carrying on, will be low.

Senator **Proxmire**. Well, my time's up. But I would just observe that we've already cut the personal income tax by 15 percent over the last couple of years. As Senator Roth has pointed out, we've increased the payroll tax. It's going to increase sharply. What we're doing, really, is shifting the tax burden in this country from a basis of ability to pay to the people whose taxes start at the same level the first dollar they earn and then ends at $35,000.

It seems to me that that is a regressive action in the wrong direction.

Thank you, Mr. Chairman. My time is up.

Senator JEPSEN. Congresswoman Holt.

Representative HOLT. Mr. Feldstein, I hate to keep beating on this tax issue but historically didn't we see in the Carter administration taxes rise by $300 billion in just 4 years and the deficit was barely affected. Unemployment increased. It went up—skyrocketed. Economic growth crashed. Inflation doubled.

I can't see how we could take a look at that and feel there is anything at all in continuing to increase taxes. Would that happen again?

Mr. FELDSTEIN. What you're saying, I think, Representative Holt, is that at that time, spending went up even faster than taxes. And that's why the deficit increased at that time.

Representative HOLT. Well, isn't that the proposal that's being made today?

Mr. FELDSTEIN. Not as I understand it. Certainly, the administration's proposal is to reduce spending and increase revenues in a balanced way. The administration's proposal, with the standby tax as part of the budget——

Representative HOLT. The two Budget Committees. Isn't it being proposed by the Congress?

Mr. FELDSTEIN. Well, I may be misinformed, since it was just voted yesterday by the Senate Budget Committee, but the information I have is that they called for a reduction in spending and an increase in taxes and that, basically, that is what the administration calls for beyond the first 2 fiscal years. The administration calls for roughly equal increases in taxes and reductions in spending between now and 1988, but with no increase in taxes until fiscal year 1986.

Representative HOLT. That would be the difference. The CBO says that reduction in inflation has a negative effect on the deficit when inflation that follows the decline in Government tax revenues is stronger than a decline in spending.

When will it begin to have an effect on the deficit?

Mr. FELDSTEIN. Well, we estimate that it will have an effect in 1983 and 1984 and, indeed, in future years as well; that is, the lower rate of inflation has a primary effect on tax revenues and reduces the amount of bracket creep that occurs and therefore, reduces the amount of tax revenue and so increases the size of the deficit. And that's why, even though we have stronger real growth, more output, and less unemployment benefits to pay, there is not much of a change in the overall budget deficit, because the lower rate of inflation actually increases the size of the deficit.

Representative HOLT. Have we ever seen inflation drop as rapidly as it did in this period of time, historically?

Mr. FELDSTEIN. Not to my knowledge, but my history may be faulty.

Representative HOLT. It seems to me that we brought it down too fast, though, and that's why the recession was as deep as it was. Do you agree with that?

Mr. FELDSTEIN. Well, I don't think we know how to control it. I don't think that we could bring it down, and get to where we are today, a year from now rather than today. I think that most people were surprised, as the chairman said earlier, about how fast it did come down. The aim was certainly for a higher rate of growth of nominal GNP. Therefore, more real GNP and a somewhat higher inflation last year than actually occurred. But we saw a drop in nominal GNP at a much faster rate.

Representative HOLT. Thank you. Thank you, Mr. Chairman.

Senator JEPSEN. Congresswoman Snowe.

Representative SNOWE. Thank you, Mr. Chairman. Mr. Feldstein, often in Congress we operate in a vacuum. As was mentioned before, in discussing the repeal of the third year of the tax cut if we were to repeal the third year of the tax cut, shouldn't we be concerned about the level of taxes that are being raised at the local and State levels of government?

I know in the State of Maine, for example, the State legislature just raised the gasoline tax over and above what we did here in Congress. Local property taxes are increasing. Sales taxes are being proposed, I know, in the Maine State Legislature as well.

So it seems to me that this would have a compounding effect on having any kind of a strong recovery.

Mr. FELDSTEIN. I think that's right.

Representative SNOWE. And to what extent do you believe that the repeal of the third year of the tax cut could abort this recovery?

Mr. FELDSTEIN. It would obviously push it in that direction. I think that "abort" is a very strong word. We're talking about roughly 15 billion dollars' worth of additional spending power in a $3,000 billion economy. So I don't want to say anything quite as strong as that.

But it's clear that it would have a decidedly negative effect and it may have a bigger effect than the $15 billion because of what it does to expectations in consumer sentiment. If the consumer feels that somehow, things are just not going right, he's not getting that tax cut that he was expecting, who knows what will happen next year, that's a real minus.

Representative SNOWE. But then, at least initially, the recovery is not very strong. The normal description ascribed to this recovery has been erratic, unstable.

It would seem to me that at a time when it's in this period of instability, that the Congress should be less likely to repeal the third year of the tax cut and certainly reticent about it.

Mr. FELDSTEIN. I think that's right. That is a very important part of the administration's thinking and why, in proposing a standby tax and recognizing that we are likely to need more tax revenue, we don't begin it until 1985, when the recovery will be well launched, well underway.

Representative SNOWE. Consumer spending was up only by 2.3 percent in the first quarter of 1983. How important is consumer spending to our recovery?

Mr. FELDSTEIN. It's really rather critical, particularly in some of the manufactured good areas, where we've seen an increase in production that's been helping to give us a higher level of employment. But we have to make sure that the consumers are there to buy those extra cars that are being produced, to buy the consumer durables and thus, ultimately, to buy the steel and the other things that are helping to expand production and employment at this time.

Representative **Snowe**. Is there any correlation between the modest increase in consumer spending and the fact that maybe consumers are now setting aside their money for individual retirement accounts, for example, savings or retiring their own personal debt?

Mr. **Feldstein**. No, not really. I mean, although there's been a very rapid growth in the number of IRA's, at this point, not surprisingly, what we're still primarily seeing in that area is movement of money from one kind of savings account into another. It'll take a couple of years before people draw down their existing liquid cash and find that in order to continue to take advantage of the IRA tax provisions, they have to do more real net savings. But the savings rate, the personal savings rate is still hovering around 5.8 to 5.9 percent.

Representative **Snowe**. Many have suggested that there has been a tradeoff between inflation and unemployment, reducing inflation for a high rate of unemployment.

Could you tell this committee, could there have been a way to avoid this substantial increase in the rate of unemployment as we were making impressive gains on the reduction in inflation?

Mr. **Feldstein**. I don't think so. As I said to Representative Holt, we don't know enough to fine-tune the pace of recovery. If we had had a longer period of deceleration, we might have had a lower rate of unemployment on average, but it would have carried on for a longer period of time. But basically, I think it was inevitable that bringing down that inflation rate that had gotten up well into the double-digit range was going to mean a higher rate of unemployment.

Representative **Snowe**. OK. Thank you.

Mr. **Feldstein**. Thank you.

Representative **Snowe**. Thank you, Mr. Chairman.

Senator **Jepsen**. Senator Symms.

Senator **Symms**. Thank you, Mr. Chairman. Good morning, Mr. Feldstein, I apologize. I missed the first part of the hearing. I hope I'm not asking a redundant question. But something that bothers me a great deal is this news of the Consumer Price Index. I think we would all view that as very positive for economic recovery. Yet, with the projected deficits that we have, and I'm one of those people that has always believed that the word "inflation" gets misused a great deal in our society, because my definition of inflation is the volumetric expansion of the money supply from within and that the result of that causes rising prices and not the other way around. But it's common that when prices go up, people call it inflation. So it gets somewhat confused.

But with the deficits that we have been running in the last few years, and it's projected that we'll be running in the future, and with the overall savings rate where it is, how are we going to rectify this without at some point simply printing money? Aren't we in a situation where we either print this money, we borrow the money, or we raise taxes for it, unless Congress is willing to reduce the spending. And so far, much to my disappointment, we haven't seem to come to grips with the spending side of the equation. And yesterday, or the day before, I know the President signed this social security so-called solution, which takes up about 36 percent of the budget and really did nothing to reduce spending.

So how are we going to square this and how do you keep the potential for interest rates down? Would you address that?

Do I make my question clear?

Mr. FELDSTEIN. I think you make it very clear. Well, it's certainly true that if the large deficits lead somehow to an increase in the money supply, that will raise the level of prices. And by any definition, we have inflation at that point. No question about that, although that's avoidable. We can have these large budget deficits with a monetary policy that isn't inflationary.

However, there would still be very, very adverse consequences of these deficits. We would see, as you say, it has to be financed somehow and if we're not prepared to shrink those deficits by cutting spending or raising taxes, then the Government's going to be in there borrowing. And if they're in there borrowing with the kind of volume that these deficits amount to——

Senator SYMMS. Do you think that raising taxes is any less detrimental than Government borrowing?

Mr. FELDSTEIN. It depends on the taxes. Yes. I think that the right kind of tax increase would be better for this economy than to go on running deficits of 5 or 6 percent.

Senator SYMMS. You mean the taxes on consumption, you'd be saying.

Mr. FELDSTEIN. Well, I think the kind of broad tax increase that the administration proposed in the budget, a surcharge on all personal income taxes, which would fall largely on consumption. It would affect savings and I don't like that. But it would fall largely on consumption. And the tax on energy, which would disproportionately shrink energy consumption, would help in that way. It would have some minor effects on savings. But basically, the extra revenue that the administration proposed as part of the standby tax would reduce those deficits if Congress doesn't turn around and spend that extra money. But if Congress accepts the kinds of proposals that the administration made to keep spending moving down gradually and to increase revenue, unless we have extremely high rates of growth that make that unnecessary, then we can really do something about shrinking these deficits. And if we don't, then exactly what you said will happen. We will have very high real interest rates that will give us a very unhealthy recovery. It will hurt housing. It will hurt plant and equipment spending. It will hurt our export industries. It will be a very serious problem for us.

Senator SYMMS. If I could just pursue this a little further. Many of my friends and colleagues, both in and out of the Congress, are great believers in restoration of a dollar that's as good as gold, so to speak. And as you get around, and I had the opportunity to travel with the Deputy Secretary of the Treasury, Mr. McNamara, recently to Mexico City, Peru and Brazil, and everywhere you go, they have depreciating value of currency and everywhere that I talked to people, they were trying to figure out how they could get their assets in some of those countries that are less secure politically and otherwise than we are and get their money in the safe haven of the United States.

So as a result of this, in spite of our irresponsible fiscal policies, we still have a very strong dollar. But it affects us with respect to trade with Japan or France.

Mr. FELDSTEIN. Absolutely.

Senator SYMMS. Or you read where different markets have a real edge. Is there any effort underway to try to get some kind of a concerted effort to see that some of these discrepancies in the price of Japanese yen vis-a-vis the dollar could be made so that there would be some adjustments. I don't see how we're going to avoid a big protectionist war and have the Japanese yen be undervalued in terms of the American dollar. And I don't see any respite in the future in view of what is happening in Central America, the Middle East, and Hong Kong. Everywhere you go there's just a flood of money coming into the United States seeking safe haven.

Doesn't that make the dollar strong and stronger?

Mr. FELDSTEIN. Well, I think you're absolutely right about what's happened to the dollar. It's not just that we're a safe haven. We've been a safe haven for a very long time. The thing that has changed in the last few years so dramatically and that pushed up the value of the dollar relative to other currencies is that the real interest rate here has gone up so much relative to what it's been historically. And it's those very high real yields on U.S. dollar assets that has attracted funds, not just from the developing countries, but from Europe and from financial centers elsewhere and have retarded the outflow of capital from this country.

Well, what does that all amount to? It gives us a dollar which, relative to the German mark, is 40 percent higher now in real terms than it was in just 1980. The yen, although most people talk about the yen, has actually changed less relative to the dollar than the mark or the franc or the pound over those last few years.

The important thing, though, in my mind is to recognize that the thing that's moving all of this is the budget deficits. The large budget deficits, by keeping up real interest rates in this country, are keeping the dollar so strong and are hurting us in our trade. And we think about budget deficits having a crowding out effect and we think that budget deficits crowd out plant and equipment and housing. But they also crowd out exports because those same budget deficits, by raising interest rates, raise the value of the dollar and hurt our export industry.

So if we want to have a healthy export sector, if we want to have an ability to compete with imports from abroad, the only thing that we can do is to get those deficits down and bring down with it the high real interest rate, because I fear, as you do, the protectionist tendencies that will get fanned by the large trade deficits that now look inevitable for this year.

Senator SYMMS. Do you have any recommendations, as long as Congress runs big deficits, is there really anything that can be done about true monetary reform that would be effective?

Mr. FELDSTEIN. I support maintaining a sound monetary policy, gradually slowing the growth of the monetary aggregates, and aiming for a nominal GNP growth as coming down bit by bit. I think that that can go on independent of what the deficits do. That can help us from having a rekindling of inflation. But it won't solve the fundamental problem caused by deficits crowding out capital formation, of giving us an unbalanced recovery with investment goods and traded goods all suffering for the foreseeable future.

Senator SYMMS. See, I guess what I'm getting at, I'm one of those, I would like to see the United States have a dollar that was freely exchangeable or supported and backed by gold and have a more stable currency. But as long as Congress runs $200 billion deficits, it seems to me like it would only hasten the lack of confidence in real money.

Mr. **Feldstein**. Well, the stability of the dollar that most people care about, of course, is in terms of buying goods in this country. They don't eat gold; they care about the price of the things that they buy every day.

Senator **Symms**. Right.

Mr. **Feldstein**. We also care about the value of the dollar relative to other currencies. But, as you're saying, as long as we have these very large budget deficits, as long as the fundamentals are wrong, there's nothing that we can do by way of currency reform, pegging systems, or anything else that will prevent the dollar from being very strong, because there is this basic pressure that the budget deficits are causing and the high dollar and the trade deficits are kind of safety valves—they allow some of that crowding out to spill over into the international markets. If we didn't have that, if we could somehow bottle that all in, then we'd have higher interest rates in this country. We'd have less investment and a lower level of housing starts and other things that we don't like.

So all we can do is push around the bad consequences of the budget deficit. Unless we cure the budget deficit problem, we're going to have an unbalanced and unhealthy economy.

Senator **Symms**. Well, when you look at that budget—Mr. Chairman, am I over, or can I ask one more question?

Senator **Jepsen**. Go ahead.

Senator **Symms**. When you look at that budget deficit and then study the actual budget numbers, and I'm also on the Budget Committee, it appears to me, anyway, that the massive growth in the benefit programs, where you transfer the money from the family that earns it to the one that doesn't earn it, are really the root cause of the structural part of the deficit. It's a spending problem; it's not a taxing problem. We still, I think, have had additional revenue come in every year to the Federal Treasury.

So that it is a spending problem and it's essentially the so-called uncontrollable items which is a word that should be dropped from the American vocabulary because we could change those items by changing the law.

Would you agree with me that the massive increase in the benefit programs and the massive overgenerous, or certainly generous, I should say, expansion of the pension funds, or pension retirement programs, and so forth, are the main cause of the deficit?

Mr. **Feldstein**. Well, if I look at the situation that we're in now—I think we have to distinguish cause and cure in this case. I think you're absolutely right, that if you look at what's happened over the past 20 years, the thing that stands out most has been the growth in nondefense spending. It was 8 percent of GNP in 1960; it's 16 percent of the GNP now. If we were back spending the same share of GNP now that we were in 1960, there wouldn't be a budget deficit today.

Senator **Symms**. That's right.

Mr. **Feldstein**. If you look at where that extra 8 percent growth in nondefense spending came from, it is primarily in transfer programs. We didn't have a medicare program in 1960. In 1960, social security was 2 percent of GNP. In 1988, medicare and social security together will be about 7 percent of GNP.

Senator SYMMS. Well, could I ask you one other question? I know you're an economist, but having said that, and with the kind of hammering that President Reagan has taken since he's been in office, in general, by the news media about being someone who is only concerned about increasing defense spending, but not concerned about social and welfare spending, when, in fact, his budget calls for over 50 percent of of it to go to social welfare spending—why has this administration been so timid in really trying to fix the benefit programs? Why have you gone along with nonsolutions to things like social security, which I call a nonsolution, where we really haven't fixed it, yet he gets credit for it or blamed for it, whichever way you want to put it.

Why didn't we go ahead and freeze the COLA's and do what was needed to be done to fix the budget problem once and for all?

Mr. FELDSTEIN. My sense is that the Social Security Commission really did tell us about where the consensus was on that issue and that it defined the limits of the solution and the form of the solution that gave the solvency to that program and allowed benefits to be maintained. But it didn't provide what you would like, Senator.

Senator SYMMS. Well, see, I think the problem is, you know, now, in retrospect, I wish we would have insisted that the Social Security Commission meet somewhere other than Washington, D.C., because some of the solutions that come out of Washington don't seem to fit the rest of the country.

Mr. FELDSTEIN. Well, but that's why we come back to this question about cause versus cure. I think there's no question that the cause, the thing that stands out over the last quarter century has been the growth in nondefense spending and particularly in transfer programs. But they're there. That 7-plus percent of GNP that's going to be spent on social security and medicare in 1988, I think, is not going to be changed. And so we have to deal with those deficits by shrinking the growth of nondefense spending and by raising revenues. And that's, indeed, what the administration's budget does. And I don't see any way of avoiding that.

Senator SYMMS. Thank you very much. I'm sorry for going over on my time.

Senator JEPSEN. Mr. Feldstein, I'd like to continue the discussion of the deficits and the formulas that indicate that a very slight improvement in just a few basic areas would have a very marked effect on the deficit.

I don't believe that story has been told adequately. I don't believe that people understand and appreciate that. And I'd like to walk through a few of these basics with you. A 1-percent decrease in unemployment, I am advised, has about a $27 billion impact on the deficit.

Is that correct?

Mr. FELDSTEIN. That's correct.

Senator JEPSEN. What effect does a 1-percent increase in gross national product have on the deficit?

Mr. FELDSTEIN. About $12 billion or $13 billion.

Senator JEPSEN. About $12 billion or $13 billion. A 1-percent decrease in interest rates has about what effect?

Mr. FELDSTEIN. Well, it has its effect primarily through the interest payments on the debt. By the time it actually had worked its way into all of the debt, since the debt doesn't roll over every night, it takes time. But if we had a 1-percent lower cost on the debt, it would be somewhere around $9 billion net. Well, no, less than that because of the taxes paid on it. Somewhere in the $5 to $9 billion range.

Senator JEPSEN. We'll say $9 billion. And then we all know that the 6-month postponement of the COLA, moving it from July 1 to January 1, is projected to give us a $40 billion impact on the deficit. That's over a 3-year period. So divided——

Mr. FELDSTEIN. By 12.

Senator JEPSEN. Say $12 billion. All right. Now early this year the administration predicted that the gross national product would grow by about 3.1 percent. That since has been revised upward to 4.7 percent. The average forecast of private economists is roughly 5 percent. The deficit projections come from these projections. Isn't that correct?

Mr. FELDSTEIN. Yes.

Senator JEPSEN. All right. So we now——

Mr. FELDSTEIN. Those projections are currently based on 4.7 percent real growth.

Senator JEPSEN. All right, 4.7 growth. The private economists' average is 5. Some say about 6 percent. But, in any event——

Mr. FELDSTEIN. No, no, no; that's not true. The average of the private economists, the survey that is done, the national survey that is done I think shows them almost exactly where the administration is now, in the high 4 point——

Senator JEPSEN. Roughly 5 percent.

Mr. FELDSTEIN. 5 percent. I thought you said 6.

Senator JEPSEN. Some say 6. Some say 7. A few 8.

Mr. FELDSTEIN. Right.

Senator JEPSEN. All right. The 1 percent decrease in unemployment—we have had a 0.7 percent decrease already and we think that that will continue. But let's take that $27 billion. If we had a 2-percent increase in gross national product over what's been projected, and that's not unlikely, we're looking at——

Mr. FELDSTEIN. It's very unlikely. A 2-percent increase over the projection would be 6.7 and I think there are economists who predict everything.

Senator JEPSEN. I mean over the 3.1.

Mr. FELDSTEIN. OK. But that's not involved in the current budget estimates.

Senator JEPSEN. Let's just take a 1-percent increase, then.

Mr. FELDSTEIN. OK.

Senator JEPSEN. That's good enough. That will give us $12 billion. But the point I'm getting at is simply that if we just take a very super ultraconservative estimate of a 1-percent decrease in unemployment and a 1-percent increase in gross national product and a 1-percent decrease in the interest rates and, just to throw in a sample of fiscal restraint, the 6-month postponement of COLA, and you're looking at $60 billion.

Mr. FELDSTEIN. No, you can't add the unemployment change to the others. That is, the unemployment change, the way that's calculated, assumes that the 1-percent change in unemployment leads to or associated with a 2.2-percent increase in GNP.

So those are just different ways of expressing the same fact. You can't add the 27 to the other numbers.

Senator JEPSEN. The statistics that people have been using for many months here, including, I thought, the Labor Department and others, that 1 percent change in unemployment is equivalent to a $27 billion——

Mr. FELDSTEIN. That's correct. Maybe I'm not clear, Senator. That's correct. A 1-percent change in the unemployment rates produces $27 billion saving in the deficit. It's also true that a 1-percent change in the unemployment rate occurs when real GNP increases by about 2¼ percent; 2¼ percent increase in real GNP, 2¼ times 12 is $27 billion. So those are just different ways of saying that an expanded economy will shrink the deficit.

But when the economy increases by 2 percent of real GNP and the unemployment rate shinks, you don't get $27 plus $27. You only get the $27 once. I guess the bottom line of all of that is that although, of course, we could have more real growth, we could have lower interest rates, all of that would shrink the deficits a little bit. We still have awfully high deficits. And anything within the feasible range of growth isn't going to change the fact that we have deficits that, if they won't be 6 percent of GNP, will be 5 percent of GNP, and that's just unacceptable.

Senator JEPSEN. The underlying point that I was getting at, and I'll try it on for size with you, is the way to bring down the deficits is to have increased productivity and a sustained growth.

Mr. FELDSTEIN. That will help, but it won't help enough. We have to make fiscal changes.

Senator JEPSEN. Then what else do we need to do?

Mr. FELDSTEIN. We have to cut spending and probably raise taxes.

Senator JEPSEN. And raise taxes, too?

Mr. FELDSTEIN. I think so. If we get enough real growth, then we wouldn't have to do it. But it would be very, very unlikely to get enough real growth.

Senator JEPSEN. And you've talked about stability in monetary policy having quite an impact. Is there any psychology involved here in the deficit of the confidence level of the American people in the financial community?

Mr. FELDSTEIN. Absolutely.

Senator JEPSEN. I see. Well, the need for a stable monetary policy generally is reflected by the administration. Except the problem is that the monetary action has not reflected the stability that we would like to have in the growth of money; is that correct?

Mr. FELDSTEIN. Well, of course, recently, the change in the monetary aggregates have been dramatic. We have had M_1 and M_2 going at 20 plus percent. But I think the financial community and anybody else interested in it recognize that that dramatic shift is due to the changes in banking regulations, which I think were a good thing to have, but they have produced these erratic money numbers at this point.

Senator JEPSEN. Do you think the performance of the Federal Reserve Board has contributed to the stability and confidence in the financial arena?

Mr. FELDSTEIN. Relative to what might otherwise have been, yes. I think if you look back to where——

Senator JEPSEN. Compared to what, huh?

Mr. FELDSTEIN [continuing]. Conditions were in the late 1970's, there's no question that we've had a tremendous improvement, that

that's what brought down our interest rates, as you described before from 20-plus percent to about 10 percent, or even less.

Senator **Jepsen**. Well, relative to what otherwise might have been, you could also answer that no.

Mr. **Feldstein**. Right. I could imagine that with perfect hindsight, I could do a better job. [Laughter.]

Senator **Jepsen**. Senator Proxmire.

Senator **Proxmire**. Mr. Feldstein, you've long been an advocate of changing tax policy to improve investment, and particularly you've urged tax policy changes in order to discourage consumption and encourage investment.

This administration, whether they know it or not, has pursued a Feldsteinian policy from Day 1, even before you were aboard—tight money, new investment in savings incentive, anti-inflation policy based on prolonged slack in the labor markets and so forth.

Now what's been the result for investment? It seems to me that it's been disaster. We have a situation where the DRI predicts a flat investment situation over the next year, the Commerce Department, about a 3-percent drop and McGraw-Hill with a survey of business, shows a 5-percent decline in real terms in investment.

So would you disagree that the decline in business investment caused by the administration's economic policies will only worsen the longrun chances of controlling inflation. It seems to me that we have lost a critical opportunity to modernize our factories and put into place productivity-improving equipment. And that would mean, it seems to me, a loss when we reach full capacity at very high levels of unemployment, because we haven't made the investment we should make.

Mr. **Feldstein**. Well, I'm flattered that you described the policy as Feldsteinian and I'll take credit, even though I don't deserve it.

Senator **Proxmire**. I'm flattered with the policy.

Mr. **Feldstein**. I'll recognize as being like my views the changes in savings incentives and investment incentives, but not the budget deficit. I think the longrun adverse effects are associated with the budget deficit. And if we're going to have a higher rate of capital formation and a longer term, we have to turn that deficit around.

But in the short run, the primary reason for the low level of investment is clearly the recession. I think that was, as I said before, an unavoidable consequence of very high rates of inflation.

Senator **Proxmire**. But you, know what is really preventing business investment—it's that overhanging overcapacity. Why should anybody invest in plant when he has too much plant right now.

Mr. **Feldstein**. Right.

Senator **Proxmire**. So what you need is more consumption, it would seem to me. And your policies discourage consumption and try to encourage investment.

Mr. **Feldstein**. What we need ultimately, just almost as a matter of arithmetic, what we need is to have a larger share of our GNP devoted to capital formation. And ultimately, that has to mean a lower rate of consumption and a higher rate of savings.

But at the present time, there's no question that keeping the consumer spending up is an important part of nurturing this beginning stage of the recovery along. I believe that the incentives that the Congress passed in 1981 that lead to a higher rate of savings are the right things. I think that they will have a favorable long-term effect on our capital formation, if we can get these deficits under control. If not, the large budget deficits will simply undo all the good things that you all did by passing savings incentives in 1981.

Senator PROXMIRE. But you see, all this just makes it seem that you're following the Santayana definition of "fanaticism"—redoubling your efforts when you've lost sight of your objective. Because it seems to me that the objective was to get inflation under control. The objective was to try to achieve that, and we've done that. Yet you say, well, we need more of the same medicine in spite of the fact that we have unemployment at such a cruel and painful level.

Mr. FELDSTEIN. I don't think that I said we need more of the same medicine. I think that at this point, the economy really can expand. We can have lower unemployment, higher employment, more real growth. We can have the kind of rise in real average hourly earnings that we're now enjoying.

Senator PROXMIRE. Well, let me read you a short paragraph from an article in the August 1979, Journal of Political Economy, entitled, "The Welfare Cost of Permanent Inflation and Optimal Short-Run Economic Policy."

It goes like this:

> The analysis developed here emphasizes that a vertical long run Phillips Curve might quite plausibly imply that the cost of reducing unemployment exceeds its benefit. When this is true, the analysis has the further implication that the benefit of increasing unemployment exceeds its cost as long as the inflation rate is above its optimal level. In an important general case, it pays to deflate the economy in order to reduce inflation, no matter how large the required temporary increase in unemployment. Even when this is not true, a very large increase in unemployment may be justifiably incurred to achieve a small permanent reduction in inflation.

Now I know economists often work with models that are quite divorced from the real world and derive conclusions that they would never implement. But it seems reasonable, given your position in this administration to ask to what extent this paragraph represents your evaluation of the relative costs of inflation and unemployment?

Mr. FELDSTEIN. That model, as you correctly said, was an abstract model published in an academic journal. There are a lot of qualifying statements in the article about the very restricted conditions under which those conclusions follow. I think they make an analytic point which helped to explain the problem of trading off future reductions in inflation against temporary changes in unemployment. That was the analytic point of the article. The strong conclusion hinges on very strong, specific assumptions.

So I wouldn't take that as a guide to economic policy today or even in 1979.

Senator PROXMIRE. Were you the author of that article?

Mr. FELDSTEIN. I was. [Laughter.]

I could have gotten off the hook by saying I never heard those words before. [Laughter.]

Senator PROXMIRE. Well, the information that I have here doesn't indicate that you were.

Mr. FELDSTEIN. I was, indeed.

Senator PROXMIRE. I'm just shocked at the notion that no matter how large the required temporary increase in unemployment, and you say a very large increase in unemployment may be justifiably incurred to achieve a small permanent reduction in inflation.

Isn't the fundamental objective that we all want to achieve a real increase in the GNP.

Mr. **Feldstein.** Of course, and we want to do it consistent with a stable inflation.

Senator **Proxmire.** Well, I wonder. After all, if we have 5 percent inflation and a somewhat higher real increase in GNP, aren't we all better off than if we have no inflation at all and a lesser real increase in GNP?

Mr. **Feldstein.** What about we're at 5? Want to do it again? Get a little more extra real growth for 6 months, but push the inflation rate up to 6? And then when you're at 6, do it again.

Senator **Proxmire.** Well, you make the assumption that inflation just automatically means that there's an impermanence in your growth.

Mr. **Feldstein.** No, no.

Senator **Proxmire.** And it may or may not mean that.

Mr. **Feldstein.** No, no; I don't mean to suggest that. I really think that that article, whatever its virtues, and no doubt it had some or the Journal of Political Economy wouldn't have published it, whatever its virtues, they're really not very relevant to the current legislative environment.

Senator **Proxmire.** Let me get back to the problem we have with real interest rates. Despite the fact that the inflation rate has been as low as it has been for the last 6 months, particularly long-term interest rates, remain very, very high. Real interest rates are much higher than they've been at this point in a recession in the past.

That seems to indicate to me that the financial markets don't have much faith in your program. And they don't have faith, it seems to me, because of the terrific overhanging deficits which we can see out to 6 years. One projection by the CBO indicates that we'll have a deficit of as high as $300 billion in 1988, even with recovery during each of those years and even with unemployment down to the 6½ to 7 percent level.

Would you disagree with the argument that real interest rates are high and that they are high because of this deficit that seems so clear and inevitable?

Mr. **Feldstein.** No; I wouldn't disagree with that at all. The only thing I would disagree with is attributing that to the program. What I would say is that if the administration's budget, the President's budget sent up in January, were in a burst of rationality enacted tomorrow by this Congress, when they could finally open the doors to the bond markets, we'd see long-term interest rates, 200 basis points lower than they are today or more, that it's getting those deficits under control that is critical and the administration's proposal calls for doing that.

Senator **Proxmire.** But if the long-run program the administration proposes of increasing military spending by a trillion and a half over the next 5 years, a program of cutting the income tax as sharply as they propose and indexing it, those are the fundamental ingredients that are in this prediction that we're going to have a $300 billion deficit.

Mr. FELDSTEIN. No; the administration's budget doesn't call for a $300 billion deficit. It calls for a deficit in 1988 of $100 billion. It calls for it despite an increase in defense spending from about 6½ percent of GNP to a little less than 8 percent of GNP.

Senator PROXMIRE. What assumptions do you make on the level of unemployment in 1988?

Mr. FELDSTEIN. It's about 6 percent. So we get back to something which colloquially could be called full employment, without begging all the questions in that term, in 1988. We'd have 6 percent, roughly, unemployment. We'd have a budget deficit of about $100 billion. We would have it despite the fact that defense spending had been built up, not to the share of GNP it had in 1960, but to a little less than 8 percent of GNP. We'd have it with tax indexing. We'd have it with the third year.

Senator PROXMIRE. I have to yield to Senator Symms.

Senator SYMMS. I just want to clarify for the record, you're talking about spending a trillion and a half on defense in the next 5 years, not increasing it a trillion and a half.

Senator PROXMIRE. I'm not sure. It's my understanding that the increase over that period would be a trillion and a half. I could be wrong.

Senator SYMMS. You see, that would be double what we're doing. We were doing that with Carter's numbers. President Carter's numbers called to spend a trillion and a half.

Senator PROXMIRE. On defense?

Senator SYMMS. On defense.

Senator PROXMIRE. And President Reagan cuts below President Carter?

Mr. FELDSTEIN. One of the things we're learning is the difficulty of comparing numbers in an inflationary world.

Senator SYMMS. It's not as much above it as we all think. If you look at Carter's last projection——

Senator PROXMIRE. I'm not talking about Reagan going over the Carter increase by a trillion and a half.

Senator SYMMS. You're talking about having spent a trillion and a half.

Senator PROXMIRE. I'm talking about having military spending increase from the level of 1 year ago to 1988 by a trillion and a half.

Mr. FELDSTEIN. In 1988, alone, it would be about $400 billion. That would be the level, not the increase. So over 5 years, it's going to be roughly a trillion and a half. And you add up the level, not the increase.

Senator PROXMIRE. But the proposal also includes some tax increases that we haven't discussed; isn't that right?

Mr. FELDSTEIN. It absolutely does. It calls for a standby tax, which, unless the growth is rapid enough to make that unnecessary, would, under the administration's program, come into effect, as long as the rest of the program is adopted.

Senator PROXMIRE. That's the surtax on the income tax?

Mr. FELDSTEIN. It's a 5-percent surtax on the personal and corporate income tax and it's a $5 a barrel tax on domestically produced and imported oil.

Senator PROXMIRE. Senator Symms.

Senator **Symms**. Thank you very much, Senator Proxmire. Back to the question about unemployment. If you go to a country like Taiwan, The Republic of China on Taiwan, they have a slogan there that there's a job for everybody. Sometimes it's not the job that somebody wants, but there is a job for everybody. They have almost no unemployment. Now some people have jobs that they don't particularly like, but when you look at the Washington Post and see that there's 37 plus pages of help wanted ads, we have unemployment—you see United Auto Workers unions threatening strikes and so forth for wages of $20 an hour or $19 an hour.

Doesn't that basic philosophy in this country that we have thought that somehow we could automatically either use the force of government through closed union shops to give monoply to certain groups of workers or else actually pass laws and regulate the price that somebody has to pay for labor? Doesn't that also trigger a certain amount of unemployment in this country?

Mr. **Feldstein**. It does do some, yes.

Senator **Symms**. It would appear to me that as long as we have restrictions on wages and prices in terms of Government regulation, and restrictive practices on on-the-job training that come about through closed union shops, that we'll always have probably more unemployment in this country than is necessary.

Now I don't happen to think that the high levels of unemployment we have would have been necessary. I don't necessarily agree with some of my colleagues that say that if we had had a bigger tax cut earlier, we'd have had more savings and more economic revival. But I think where we have failed in this Congress miserably is with the question of allowing benefit programs to outstrip the wage index.

In other words, where the social security beneficiary gets a 225 percent increase and the wage earner got 120 percent increase, and then instead of solving the problem by slowing down the rate of growth of benefits, we raise the taxes on the young worker.

I know of a case where one young man is going to work for a retired worker and the retired worker will get $15,000 a year tax-free from the Social Security Administration, or close to that, he and his wife, and the young person that is going to work in his small company will be making $15,000 paying taxes.

So it doesn't seem to me like there's been much equity in those programs.

But, nevertheless, with respect to the health benefits, I saw some statistics that said that we would soon be, Americans, at the rate that we're going, spending 25 percent of our GNP on health care.

Does that sound——

Mr. **Feldstein**. That sounds too high. We probably are spending about 9 or 10 percent now. Of course, it's growing.

Senator **Symms**. At the rate it's been growing, I think this is projected in 1990. Does that sound possible?

Mr. **Feldstein**. Not that soon, no.

Senator **Symms**. My understanding was that by 1990, if we don't do something about it, such as the administration's suggestions on medicare, which I compliment you on them if you had something to do with them. I think they're really along the right track and are excellent.

Mr. Feldstein. Well, I think the figures that we have today on consumer prices highlight what you've been saying because it's been the medical care costs that have continued to grow at a rate that far outstrips anything else in the major components of the CPI. While the overall CPI is up 3.6 percent in the last 12 months, the medical care component is up 10.5 percent.

In the last 3 months, the overall CPI is up $^{4}/_{10}$ths of a percent, but medicare is up 8.8 percent.

So it's clear that we have to do something to change the spending habits of the American public on medical care.

Senator Symms. We spend this much of our GNP on medical care. Well, that means that we won't have it to spend on tools and equipment for modernization of plants and so forth. I mean, it's just a matter of fact that that will be the case.

Mr. Feldstein. I suspect it would come mostly out of other forms of consumer spending, although to the extent that it's to be financed by higher taxes, it will have a harmful effect.

Senator Symms. Now I saw Mrs. Heckler on television this morning and she made reference to a commission that is studying the medicare problems, where the medicare fund is projected to be bankrupt by—I forget what year, 1986, 1988, or somewhere along there—that they were doing another commission report.

Is this a similar commission to the Social Security Commission?

Mr. Feldstein. No. It's a statutory body. There is a commission that reviews social security as a whole every 4 years. This year, because the President's commission was dealing with social security, the Quadrennial Committee decided that it would not look at the general social security problem, but would focus all of its attention on the medicare program within social security.

Senator Symms. I just have one other question, and I appreciate that information, back to that medicare problem. I think we do have a problem and I think a large part of the increased cost of medical care has been because of the incentive that the consumer of medical services has had to actually shop for the services or to be involved in the up-front part of the bill. And I think that if we could increase the up-front part, and that's why I think the administration's program is so sound, where you do take care of catastrophic, I hope that we can be successful to get that through the Congress. And I think that that will really alleviate a lot of the problem.

Back to the defense spending, to the question of a trillion and a half dollars in defense spending that Senator Proxmire had. Just to get the numbers correct here so that there isn't a misunderstanding in our record. It is true that when President Kennedy was in office, that we spent about 50 percent of the Federal budget for defense and about 25 percent for welfare.

Isn't that correct? I don't think they used the definition of welfare——

Mr. Feldstein. That sounds like the right kind of orders of magnitude.

Senator Symms. They called it human services. And then if you look at the budget today, we're spending about 25 to 28 percent for defense; is that correct?

Mr. Feldstein. That's about right, yes.

Senator **Symms**. And we're spending right at 50 percent for the welfare side of the budget.

Mr. **Feldstein**. I would have thought even more than that. Well, welfare—I think of all nondefense. All total nondefense is more than two-thirds of government outlays.

Senator **Symms**. So it's really a little bit unfair to try to say that the defense part of the budget is what's causing the deficits. Now, of course, spending is spending and it may contribute to it. But to try to lay the blame on that I think does a disservice to the country to have that misunderstanding.

The big spending tickets are the reason that we have runaway spending—we automatically increase big portions of the Federal budget—unless there's a change of the law by Congress. And so far, Congress has failed to really make drastic or dramatic changes that have to be done.

And I think it's a responsibility, incidentally, of the administration to try to lead the country instead of follow it. That's my disappointment in the social security thing. We had some good suggestions on how to solve the social security problem without doing damage to the working taxpayer and the savings rate in the country, and I think that that will contribute to unemployment, as a matter of fact, just because of the increase in the payroll tax.

But it was a matter that then the commission became like they were speaking right straight out of the ten commandments or something and that became the word and Washington marched in lockstep, Republican and Democrat alike, to pass the Social Security Commission. And I think that it set a pattern. It cut a pattern from a cloth that was at too high of a spending level and now everything else is falling into it. And we've seen this disastrous budget that passed the Senate Budget Committee yesterday, which I think would be an absolute travesty on the country if that were passed, as far as ever having economic recovery.

I think if we pass that budget and put it into effect, we can promise the public that they won't get an economic recovery. They will have a disastrous rerun of high inflation, which will be followed by high interest rates, which will be followed by even higher numbers of unemployment than we now have.

So I think we do have a lot of work to do on the budget itself before anything can be acceptable. Preferable to the budget that passed the Senate Budget Committee, I'd rather not have a budget and have the President get the veto pen out and start vetoing everything. As far as I'd be concerned, I think that we could do better for the country than to do it the other way.

We've just been joined by Congressman Scheuer from New York and I think he had some questions that he wanted to ask, Mr. Feldstein.

And then as soon as you're through, Jim, we'll adjourn the meeting.

Representative **Scheuer**. Thank you, Senator. My name is Congressman Scheuer, Jim Scheuer, from New York and I'm delighted to be here. I'm the freshman member of the committee and it's a great honor and privilege to serve.

I have just a few miscellaneous and somewhat unconnected questions, Mr. Feldstein.

On the second page of your prepared statement, you say that this isn't to say that inflation is permanently under control. The maintenance of relative price stability is an ongoing task and it's important to avoid policies that might put appropriate upward pressure on demand and prices.

When President Reagan was inaugurated, we had about 8 million unemployed. And now we're up to 11.4 million. I don't think I have to tell you, you're a sensitive and thoughtful man, the cost that this has exacted from not only in our economy in terms of business failures, unused productive capacity, but social cost—disillusionment, tragedy, hardship, alienation, wasted talents, not only of our adults, but of our young people, our young minority youth, where unemployment is up to 50 percent.

This period has exacted awful, dreadful, tragic social as well as economic costs.

One wonders how we are going to achieve some kind of improved balance between avoiding the policies that might be putting inappropriate upward pressure on demand and prices and these very selfsame policies that might substantially improve the employment picture and put a shot of adrenalin into our economy.

There is the danger that that kind of mix of policies would have a heating up effect. But still and all, we can't long continue the awful social costs of 11.4 million Americans being unemployed and 50 percent of urban minority youth being unemployed, with all the psychic loss that that involves.

How does the administration propose to meet this? When do you think that we are going to be back to 8 million unemployed, which would be a vast improvement over where we are, almost a 50-percent reduction in present unemployed. And when do you think that we'll be back to the old frictional unemployment that we had several decades ago, what the economists used to call the 3-percent unemployment was frictional unemployment. That was more or less full employment.

Can you give us some targets as to when we'll be back to the 8-percent figure that President Reagan inherited when he took office? And then another target perhaps for the optimum goal of frictional unemployment in the neighborhood of 3 or 4 percent. And what other combination of factors, what is the mix going to be that is going to help us crank up this sick and ailing economy without the overheating that is going to destroy the very laudible progress that we have made in reducing inflation and reducing interest rates?

Mr. FELDSTEIN. Well, I'm relatively optimistic. I put that cautioning note in my prepared statement, but I do believe that we now are embarked on a policy course.

Representative SCHEUER. It did have a chilling effect.

Mr. FELDSTEIN. Well, I think it's important to remind ourselves that the dramatic progress that we see on this chart here in inflation in the last few years doesn't take care of itself, that we have to be mindful of it and pursue policies that will not reverse it.

But those policies are consistent with the continuing fall in unemployment, the continuing rise in employment over the years ahead. I think starting from our current position, we can expect that there will be about 2 million more people working in the beginning of next year than there were in the beginning of this year. And that by the beginning of 1985, there will be about 5 million more people working than there were in the beginning of 1983.

Representative SCHEUER. So you think in the beginning of 1985, we'll be down to less than 7 million unemployed.

Mr. FELDSTEIN. No, because the labor force is also growing at the same time.

Representative SCHEUER. I see.

Mr. FELDSTEIN. I'll have to send in a written answer on the question of when we would expect to have an 8 million unemployment level.

Representative SCHEUER. And there also, when do you expect that we're going to hit frictional unemployment?

Mr. FELDSTEIN. Well, I think the issue of frictional unemployment and the problem of youth unemployment——

Representative SCHEUER. Is that the great desiderata?

Mr. FELDSTEIN. Absolutely. And I think it's closely related to the problem of youth unemployment and particularly minority youth unemployment that you referred to.

Representative SCHEUER. Yes.

Mr. FELDSTEIN. Because what we've seen is that level of—call it frictional unemployment, call it full employment—the new word is structural unemployment. Whatever you want to call it, that level has been drifting upward over time. And that's in part due to changing demographics, with more young people entering the labor force. It's in part due to other factors.

But nothing changes the fact that we are not going to be able to bring the unemployment rate back down to something like 3 percent without doing major changes in the adverse incentives and impediments that keep rates so high for groups like minority youth.

Representative SCHEUER. Mr. Feldstein, you use frictional unemployment interchangeably with structural unemployment. To me, they're two different things. Structural unemployment—frictional unemployment is full employment, except for people who are changing jobs. Structural unemployment implies the existence of the group, who, no matter to what degree our economy reaches full employment, are cut out of it.

Mr. FELDSTEIN. OK.

Representative SCHEUER. And are systematically, endemically unemployed, presumably because they don't have the skills, the reading, writing, counting, and other skills that an increasingly sophisticated job market requires.

Mr. FELDSTEIN. Exactly, and that was the group that I was going to try to address.

Representative SCHEUER. Yes.

Mr. FELDSTEIN. The minority youth and others who lack those skills. And I think there, the recovery, in itself, helps them, but won't get their levels down to what we need to eliminate that source of structural unemployment.

Representative SCHEUER. What specific programs does this administration have or what specific programs do you advocate to reach this growing undergroup in our society that has to be troublesome to anybody who——

Mr. **Feldstein.** I absolutely agree with you. There are three principal programs aimed at dealing with that problem. The first, that's already been legislated, is the Job Training Partnership Act. That will provide—I can't remember the exact amount—but a very substantial amount of funds, more than $2 billion, which will focus on providing job-related skills for the disadvantaged, particularly for young people. I think that's very important and from what I've heard from people who have been engaged in planning for it and the people in the private sector who are part of those who will implement it, they're very enthusiastic about the prospects of having something that will actually provide useful training for this group.

A second thing that's been done and that seems to be very little known is a special jobs tax credit for disadvantaged youth, I believe limited to the summertime, when an employer can get a tax credit equal to 85 percent of what the young person is paid. It makes them virtually free to the employer and provides a very substantial incentive to take these people and give them a chance to get some experience, get a little bit of on-the-job training, build up an attendance record, if nothing more.

The third thing that's still in the legislative proposal stage is a change for summer months in the minimum wage that would allow young people to be paid 75 percent of the minimum wage during the summer months, again to give them a chance to get a job, to get some experience, to get known by an employer.

I think if we pursue those kinds of things, we have a chance of dealing with that structural problem.

Representative **Scheuer.** Well, I think that those are very laudable programs. I take it that the tax credit, the 85 percent tax credit, is a summer program.

Mr. **Feldstein.** It's a summer program.

Representative **Scheuer.** And it has some job skills training.

Mr. **Feldstein.** It doesn't specifically call for it, but the idea is, indeed—for the most disadvantaged, getting employed, having the basic skills that come from coming in every day and working as part of a work organization is in itself a form of job training.

Representative **Scheuer.** I agree with you and that is absolutely the approach that we have to take. For some reason or another, the school system, and I'm not pointing the finger of blame, but when the school system and this new generation of kids have interacted, there has been sort of a negative critical mass. The system has turned the kids off. They haven't acquired reading, writing, and counting or deportment or behavior skills at school. And maybe we have to provide those at the work place. We ought to at least give it a good try.

Now, I'm trying extremely hard to overcome my innate modesty, but a decade ago, there was a program called the Nelson-Scheuer program on the Senate side—it was called the Scheuer-Nelson program on the House side. This was a work-study program aimed just at this group, at young people without high school diplomas, without literacy skills. And at that time it was mostly in public service jobs—aides, police aides, housing aides, school aides, health aides, and the like. And it was extraordinarily effective.

The young people received training on a release time basis. It was an effective work-study program. We started young people out as hospital aides and hospital attendants and they worked up to licensed practical nurses and registered nurses and got them on the track. Many of those people are making $25,000 and $30,000 a year and more.

I wonder whether it might not be a good idea to think about first extending this program to more than just the summer months—it looks like sort of an ad hoc, not very serious thing when it's just for the summer—and having a major input of on-the-job training to teach these kids, to "loin 'em" what they haven't learned in school. And I'm not saying whose fault it is. There's been some failure of interaction. Something about that institutional structure of the public education system turned a lot of these kids off.

Mr. FELDSTEIN. Well, that is, of course, what the Job Training Partnership Act does. It does provide something that is not just limited and that does have prospects for either in-plant training or in a vocational classroom setting.

Representative SCHEUER. At the place of employment.

Mr. FELDSTEIN. It could be at the place of employment. It could be at a school that teaches auto mechanic skills or typing skills or whatever may be appropriate.

Representative SCHEUER. Right. If that looks to be successful, would you be in favor of expanding that program on a cost-benefit basis, if it can bring these kids out of their status of structural unemployment into the mainstream, into the job market?

Mr. FELDSTEIN. I certainly would be favorably disposed to looking at it if we saw that kind of success.

Representative SCHEUER. Well, it's a worthwhile and a useful program on a very, very, very small scale. But if it's looked upon as a sort of pilot program and if we analyze it and try to determine which are the elements that seem to be producing success and which are the elements that seem to be producing failure and try and enhance those elements that are working and cut out the elements that aren't working very well, if we look at it as a research and demonstration program. I would think in a couple of years, we would have the data really to make a massive impact on this terribly critically important problem of our country of the structurally unemployed. This underclass in our society who have to feel, from their inability to find work, that society is disinterested in them, that has no place for them, and the resentment and the bitterness and the alienation that that produces. For a young man or woman in their teens, their late teens or twenties, who have persistently been unable to find employment, it is a ticking time bomb in our society.

I can't think of any more important high priority target for us to address ourselves to than giving every single American young man and woman the skills and the attitude, the enthusiasm and the confidence that they can make it, that will enable them to make it in our society.

Mr. FELDSTEIN. I agree with you very much, sir. I suspect that if you went out and you asked either businesses in your congressional district or you asked unemployed young people in your congressional district, that virtually none of them would know about the special tax credit.

I think that it's very important to get that information out to them so that they can take advantage of this program, which doesn't limit the number of eligible people, doesn't limit the kinds of jobs they do, but, in effect, allows an employer to pay them at very little cost to himself so that he can invest in their training, so that they can spend time watching more experienced employees. He can take a chance on hiring someone without an employment record.

Representative SCHEUER. Very good. Mr. Feldstein, you mentioned in a colloquy, I think it was with Senator Proxmire, how high an importance you put on encouraging savings. He agreed with you and I agree with you. Do you have any particular combination of measures in mind that would encourage savings in the specific narrow areas that would help make our economy productive and would help make American corporations able to compete in global competition?

And I mean specifically in research and demonstration projects, in more research. Our rate of research is far less than what it should be and far less a percentage than other countries seem to be able to encourage. And investment in new plant and equipment.

It's no source of wonder to anybody who has observed what the steel industry has been doing for the last generation and a half, that they're not able to compete today in global trade. They've been buying oil companies and buying international conglomerates. They've invested their cash flow in things other than the steel business. They've eaten into capital, as far as steel production facilities are concerned. They have disinvested almost every year for the last three or four decades.

And now that they're unable to compete, they come to Congress and they want to be enshrouded in a cacoon of protection—quotas and tariffs and all of that—to protect themselves from a situation that is of their own devising, just damned poor corporate decision-making.

What can you suggest or what does this administration have in mind in terms of measures that would encourage, provide an incentive for more investment in research and more investment in new plant and equipment?

Mr. FELDSTEIN. Well, as Senator Proxmire said, the administration in 1981 worked with Congress to enact changes in the tax laws which were designed to increase very substantially the rate of savings and the amount of investment in plant and equipment and in R&D. I think that those legislative changes were really extremely important and over the long term will be very, very helpful.

The Individual Retirement Accounts, the exclusion of 15 percent of interest income, and other changes will have the effect of increasing substantially the incentives of households to save. In addition to that, the changes that were made in depreciation schedules and the special provisions for additional favorable treatment of R&D expenditures in the corporate tax, I think, will be a positive step in directing a larger share of our capital in that direction.

I think the critical thing that has to be borne in mind now if we're to have a higher rate of investment is getting the deficits down. If we have large deficits, then the increased savings will simply be absorbed in financing more government debt rather than in financing more private capital.

Representative **Scheuer**. Thank you very much, Mr. Feldstein. Thank you, Senator Symms.

Senator **Symms**. Thank you very much, Congressman. Excellent questions and I appreciate you getting here and making our record better.

Mr. Feldstein, thank you very much. You have been very patient and have stayed with us all morning. We thank you very much and hope that you can continue to come back with CPI reports like the one you have today. I think, in the long run, if we can accomplish that, that we might be able to sustain, if we could sustain noninflationary growth, I think then we'll be able to sustain lower unemployment numbers at a permanent level. And I look forward to seeing that date come sometime. Thank you.

Mr. **Feldstein**. Thank you very much.

Senator **Symms**. The committee stands adjourned.

[Whereupon, at 11:45 a.m., the committee adjourned, subject to the call of the Chair.]

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